



**LEGISLATIVE
SERVICES AGENCY**

Serving the Iowa Legislature

Fiscal Facts 2013

**IOWA
Legislative Services Agency
Fiscal Services Division
June 2013**

To: Members of the Iowa General Assembly

From: Holly M. Lyons, Division Director
Fiscal Services Division

Re: Fiscal Facts

Date: June 2013

Fiscal Facts contains data relating to overall revenues and expenditures of State government, as well as information regarding the most pertinent and discussed topic areas. Additional detailed data and information are available from the Fiscal Services Division of the Legislative Services Agency.

The FY 2013 data are estimates since the document is being issued prior to the close of FY 2013. The data provided for FY 2014 represents action taken by the 2013 General Assembly, and does not reflect veto action by the Governor.

If you would like further information regarding any of the data provided within **Fiscal Facts** or have any comments and suggestions regarding this document, please do not hesitate to contact me at 515-281-5279 or holly.lyons@legis.iowa.gov.

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IOWA FISCAL FACTS

TABLE OF CONTENTS

	Page
2013 Legislative Session Overview	
State of Iowa General Fund Balance.....	1
Estimated Contingent Liabilities for State Tax Credits.....	2
The Year in Review.....	3
Distribution of Estimated FY 2014 State General Fund Appropriations.....	8
Iowa Health and Wellness Plan.....	9
Adult Mental Health and Disability Services Reform.....	11
Education Reform.....	13
Federal Budget Control Act of 2011.....	22
The Tayspayer Trust Fund.....	25
Property Tax Changes and Income Tax Credit Act of 2013.....	26
Bond Repayment and Supplemental Appropriations.....	29
Water Quality Initiative.....	34
Natural Resources Legislation.....	35
Government Finance and Taxation	
Expenditure Limitation.....	37
Iowa's Reserve Funds (Rainy Day Funds).....	38
Flow of General Fund Revenues After Expenditure Limitation Est. FY 2014.....	40
Cash Reserve Fund.....	41
State Funding Sources.....	42
State Expenditures Governmental Funds.....	43
Sources of General Fund Growth.....	44
General Fund Receipts History	45
General Fund Expenditures Shifted to Other Funding Sources.....	46
General Fund Receipts.....	47
Distribution of Major State and Local Tax Sources.....	48
Iowa's Cash Management Practices.....	49
Debt Management.....	50
Budgets and Appropriations	
Iowa's Budget Process.....	51
Other Fund Appropriations.....	52
Salary Adjustment.....	53
Collective Bargaining Settlements.....	54
Infrastructure Funding	55
Environment First Fund.....	57
Tobacco Settlement.....	59
Status of Tobacco Funds.....	60

IOWA FISCAL FACTS

TABLE OF CONTENTS

	Page
State and Local Government	
Budgeted Statewide County Expenditures.....	61
Iowa Economy	
Economic Summary.....	62
Education	
Paying for Public Education - The Iowa School Foundation Formula.....	64
K-12 State Aid General Fund Appropriations.....	69
General Operating Expenditures K-12 For Iowa School Year	70
General Operating Expenditures K-12 by Function.....	71
Health and Human Services	
Human Services Programs.....	72
Human Services Major Program Funding.....	74
Children's Health Insurance Program (CHIP).....	75
Crime/Enforcement/Transportation	
Year-End Prison Population, Staffing, and Budget	76
Iowa's Transportation Funds.....	77
State Profile	
Iowa's Population Change by County.....	82
Iowa's Population	84

**STATE OF IOWA
GENERAL FUND BALANCE
(\$ in millions)**

	Actual FY 2012	Estimated FY 2013 ¹	Legislative Action FY 2014 ¹	Legislative Action FY 2015 ¹
<i>Funds Available:</i>				
Net Receipts	\$ 6,311.1	\$ 6,517.1	\$ 6,739.8	\$ 7,182.3
Est. Adj. (Mar. REC)		144.7	166.3	
Legislative Action Rev. Adj.		-25.3	-249.6	-263.6
Econ. Emerg. Fund Transfer	381.4	572.1	408.7	447.8
<i>Total Funds Available</i>	<u>6,692.5</u>	<u>7,208.6</u>	<u>7,065.2</u>	<u>7,366.5</u>
<i>Est. Appropriations:</i>				
General Fund	6,012.5	6,227.1	6,485.1	5,638.9
Adjustment to Standings		3.5		
Net Supplementals		335.9		
Reversions	- 8.1	- 5.0	- 5.0	- 5.0
<i>Net Appropriations</i>	<u>6,004.4</u>	<u>6,561.5</u>	<u>6,480.1</u>	<u>5,633.9</u>
<i>Ending Balance</i>	<u>\$ 688.1</u>	<u>\$ 647.1</u>	<u>\$ 585.1</u>	<u>\$ 1,732.6</u>

Note: This balance sheet reflects the final action of the 2013 General Assembly and is prior to actions by the Governor.

¹The FY 2015 revenue estimate assumes an increase of 4.0% in net receipts after transfers above the March REC estimate. The FY 2015 estimate was not addressed by the Revenue Estimating Conference.

Estimated Contingent Liabilities for State Tax Credits (Dollars in millions)

The FY 2013 and FY 2014 revenue estimates include contingent liabilities in the form of tax credits. The table below outlines the projected tax credits that may be redeemed in FY 2013 and FY 2014.

Legislation or Tax Credit Program	FY 2013	FY 2014
Accelerated Career Education Tax Credit*	\$ 4.1	\$ 4.1
Agricultural Assets Transfer Tax Credit*	3.5	3.9
Biodiesel Blended Fuel Tax Credit	6.4	7.6
Charitable Conservation Contribution Tax Credit	0.9	1.1
<u>Child and Dependent Care Tax Credit</u>	<u>6.3</u>	<u>6.0</u>
E85 Gasoline Promotion Tax Credit	1.4	2.3
Early Childhood Development Tax Credit	0.5	0.5
Earned Income Tax Credit	30.2	29.8
Endow Iowa Tax Credit*	3.6	3.7
<u>Enterprise Zone Program Housing Investment Tax Credit*</u>	<u>6.6</u>	<u>6.8</u>
Enterprise Zone Program Investment Tax Credit*	9.8	7.2
Ethanol E15 Tax Credit	0.0	0.1
Ethanol Blended Gasoline Tax Credit	0.0	0.0
Ethanol Promotion Tax Credit	3.9	2.7
Film, Television, and Video Project Promotion Program*	1.3	0.3
Film, Television, and Video Project Promotion Program - Under Review*	0.1	0.2
Geothermal Tax Credit	1.2	1.8
High Quality Jobs Program*	11.6	15.9
Historic Preservation and Cultural and Entertainment District Tax Credit*	31.9	37.1
<u>Iowa New Job Income Tax Credits (260E)</u>	<u>51.1</u>	<u>51.7</u>
New Capital and Income Program Investment Tax Credit	0.6	0.7
New Jobs and Income Program Investment Tax Credit	3.7	2.2
Redevelopment Tax Credit*	0.2	2.5
Renewable Energy Tax Credit*	3.3	5.0
<u>Research Activities Tax Credit</u>	<u>40.0</u>	<u>43.3</u>
Research Activities Tax Credit - Supplemental	14.7	15.2
School Tuition Organization Tax Credit*	8.6	9.0
Solar Energy Tax Credit	0.2	0.9
Targeted Jobs Tax Credit from Withholding	3.9	5.6
<u>Tuition and Textbook Tax Credit</u>	<u>15.1</u>	<u>15.1</u>
Venture Capital Tax Credit - Iowa Fund of Funds*	6.7	4.0
Venture Capital Tax Credit - Qualified Business or Community-Based Seed	0.0	0.0
Seed Capital Fund	0.7	1.2
Venture Capital Tax Credit - Venture Capital Funds*	0.2	0.2
<u>Wage-Benefits Tax Credit*</u>	<u>2.2</u>	<u>0.8</u>
Wind Energy Production Tax Credit*	1.6	1.5
Volunteer Firefighters and EMS Tax Credit	0.0	0.9
Tax Credit Program Total	\$ 276.1	\$ 290.9
Change from Previous Fiscal Year		\$ 19.7 \$ 14.8

Note: Estimates are based on information provided by the Department of Revenue prior to the March 2013 Revenue Estimating Conference.

*Indicates that programs have credit cap amount.

Totals may not equal 100.0% due to rounding.

THE YEAR IN REVIEW

FY 2012

State General Fund revenue in Iowa continued to show strong improvement in FY 2012, outpacing the growth rate experienced by the national economy and many other states. By April 2012, revenues reached the prerecession peak that occurred in March 2008. The strong growth was led by increases in personal income tax of \$172.6 million (5.0%), corporate income tax of \$126.2 million (32.0%) and sales/use tax of \$123.9 million (5.2%). These increases were partially offset by a law change that took effect in FY 2012 that annually transfers \$106.0 million of cigarette and tobacco tax receipts from the General Fund to the Health Care Trust Fund. Net General Fund revenue for FY 2012, excluding transfers, totaled \$6.202 billion, an increase of \$389.0 million (6.7%) compared to FY 2011. When adjusted for transfers, net General Fund revenues totaled \$6.311 billion, representing an increase of \$412.1 million (7.0%) compared to FY 2011. The General Fund also received a transfer of \$381.4 million from the excess FY 2011 surplus resulting in total available revenues of \$6.693 billion.

Net appropriations for FY 2012 totaled \$6.004 billion, an increase of \$660.0 million (12.3%) compared to FY 2011. Much of the increase was the result of moving appropriations back to the General Fund that had previously been shifted to other state funding sources. The fiscal year ended with a record surplus of \$688.1 million. Of the surplus, \$21.1 million was transferred to the state's reserve funds to maintain the reserves at 10.0% of the adjusted revenue estimate and \$94.9 million was used for other statutory obligations. The remaining \$572.1 million was transferred back to the General Fund for expenditure in FY 2013.

FY 2013

According to a Spring 2013 report released by the National Conference of State Legislatures (NCSL), state fiscal conditions continue to improve at a slow and steady pace. In most states, the general outlook is one of stability, with a bit of uncertainty. Uncertainty exists due to the impact of federal sequestration and how federal fiscal policy could affect future state revenues. Revenue collections have met or exceeded expectations in 45 states and most states remain optimistic that they will meet their revenue targets in FY 2013.

THE YEAR IN REVIEW (Continued)

For FY 2013, the March Revenue Estimating Conference (REC) estimate of net General Fund revenues, excluding transfers, includes growth of \$418.8 million (5.7%) compared to FY 2012. Projected growth in personal income tax of \$322.7 million (8.9%) is the primary driver of the increase; however, modest growth in sales/use taxes of \$78.0 million (3.1%) and corporate income tax of \$34.0 million (6.5%) are also contributing to the projected growth.

The FY 2013 General Fund budget, revised by the 2013 General Assembly, was based on total available revenue of \$7.209 billion. This included a March 2013 revenue estimate of \$6.637 billion, net revenue adjustments enacted during the 2013 Legislative Session of \$-25.3 million, and a transfer of \$572.1 million from the Economic Emergency Fund.

Revised net General Fund appropriations for FY 2013 total \$6.562 billion. This includes previously enacted appropriations of \$6.227 billion, supplemental appropriations of \$335.9 million, an increase of \$3.5 million in budgeted State Appeal Board claims, and reversions of \$5.0 million. It should be noted that approximately \$216.9 million of the supplemental appropriations are for "one-time expenditures" such as infrastructure projects or for programs that are nonoperational in nature.

The FY 2013 General Fund surplus is estimated to be \$647.1 million. In addition, the combined balances in the Cash Reserve and Economic Emergency Funds total \$622.4 million for FY 2013.

FY 2014

For FY 2014, economic indicators continue to show recovery and Iowa has been slowly adding jobs. Net General Fund revenue has increased for 12 of the last 13 months, and the economic outlook is cautiously optimistic. Revenues continue to exceed estimates, but concerns exist about the uncertainty of federal fiscal policy, particularly effects from sequestration.

The net General Fund revenue estimate for FY 2014, established by the REC in March of 2013, excluding transfers, was \$7.752 billion. This represents an increase of \$281.2 million (3.8%) compared to the March estimate for FY 2013. The revenue sources contributing to the majority of the estimated growth include the personal income taxes and sales/use taxes. Personal income tax is estimated to increase \$176.5 million (4.5%) and the sales/use tax is estimated to increase \$92.8 million (3.6%).

THE YEAR IN REVIEW (Continued)

The FY 2014 General Fund budget, enacted by the 2013 General Assembly, was based on total available revenue of \$7.065 billion. This included a March 2013 revenue estimate of \$6.906 billion, net revenue adjustments enacted during the 2013 Legislative Session of \$-249.6 million, and a transfer of \$408.7 million from the Economic Emergency Fund.

Net General Fund appropriations enacted for FY 2014 total \$6.480 billion, thus represents a decrease of \$81.4 million (1.2%) compared to the revised FY 2013 appropriations. This includes enacted appropriations of \$6.485 billion and reversions of \$5.0 million.

The FY 2014 General Fund surplus is estimated to be \$585.1 million, and the combined balances in the Cash Reserve and Economic Emergency Funds are estimated to total \$691.9 million. In addition, the balance in the Taxpayer Trust Fund for FY 2014 is estimated to total \$120.0 million. The General Assembly enacted legislation that establishes a nonrefundable tax credit for individuals that will be paid from the balance of funds in the Taxpayer Trust Fund. The tax credit per individual is estimated to be \$56.

FY 2015

As part of the partial biennial budget plan enacted during the 2013 Legislative Session, the General Assembly appropriated \$5.639 billion from the General Fund for FY 2015. This is approximately 87.0% of the amount appropriated for FY 2014. Most of the state agency operating appropriations were funded at 50.0% of the FY 2014 level. However, several standing appropriations received appropriations at 100.0% of the FY 2014 level while others received increases. Funding for schools was increased by \$128.1 million. This included a 4.0% allowable growth rate. Significant initiatives in relation to education, property tax, and health care for low-income Iowans affecting FY 2015 and future years were approved and are summarized in separate sections of this document.

Significant Legislation Enacted by the 2013 General Assembly

The General Assembly enacted several significant legislative initiatives during the 2013 Legislative Session. The following is a brief summary of these initiatives.

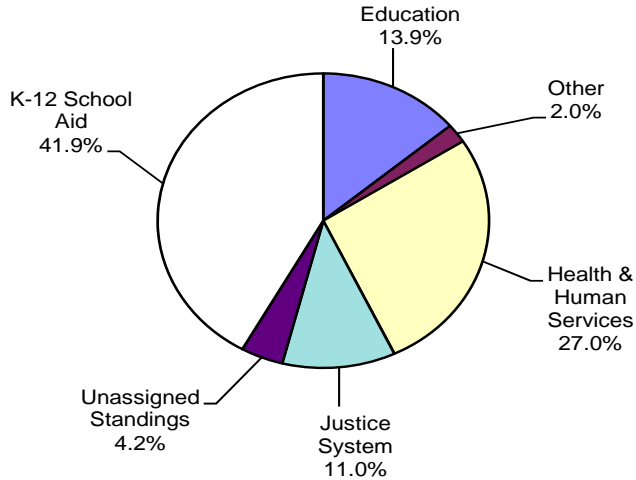
THE YEAR IN REVIEW (Continued)

- **Education Reform:** [HF 215](#) (Education Reform) provides broad reforms and makes appropriations to the Iowa public education system. For FY 2014, this Act provides an increase of \$77.3 million (2.0% allowable growth) in state school aid as well as a one-time appropriation. This Act also establishes a 4.0% allowable growth rate for FY 2015. This is an estimated increase in the state school aid appropriation of \$128.1 million in FY 2015.
- **Property Tax Reform:** [SF 295](#) (Property Tax Changes and Income Tax Credit Act of 2013) made significant changes to how Iowa classifies and values property for property tax purposes. This Act creates a General Fund standing appropriation to fund a new property tax credit for commercial, industrial, and railroad properties. This Act also reduces the maximum annual taxable value growth percent from the current 4.0% to 3.0%. Commercial, industrial, and railroad property is assigned a “rollback” of 95.0% for assessment year (AY) 2013 and 90.0% for AY 2014 and each year thereafter.
- **Workforce Training:** [HF 604](#) (Education Appropriations Act) created the Iowa Skilled Worker and Job Creation Fund to annually fund programs related to worker job training. The General Assembly directed \$66.0 million annually to the Fund from the State Wagering Tax receipts that were previously deposited in the General Fund.
- **Taxpayer Trust Fund Tax Credit:** Included in [SF 295](#) (2013 Property Tax Reform Act) was a provision that established a nonrefundable income tax credit from the Taxpayer Trust Fund effective for the 2013 tax year. The amount of the tax credit is calculated by dividing the balance in the Taxpayer Trust Fund by the number of eligible individuals of the previous tax year. For tax year 2013, this estimated tax credit is estimated to be \$56 per eligible individual.

THE YEAR IN REVIEW (Continued)

- **Bond Debt Defeasance:** The State Bond Repayment Fund was created in [HF 648](#) (Bond Repayment and Supplemental Appropriations Act) for the purpose of retiring certain revenue bond obligations. This Act transfers \$116.1 million from the excess funds after the Economic Emergency Fund reaches its maximum balance for FY 2014.
- **Medicaid Expansion:** The Iowa Health and Wellness Plan was established in [SF 446](#) (Health and Human Services Appropriations Act) to replace the expiring Iowa Care Program and to provide health coverage to individuals with income between 0.0% - 133.0% of the federal poverty level, plus a 5.0% income disregard.
- **Water Quality:** A Water Quality Initiative Fund was created in [SF 435](#) (Agriculture and Natural Resources Appropriations Bill) and a total of \$26.8 million was appropriated to the Fund over three fiscal years. The appropriations will be used to fund a variety of watershed improvement projects and soil and water conservation projects.
- **Retirement Systems:** In [HF 648](#) (Bond Repayment and Supplemental Appropriations Act) the General Assembly appropriated a total of \$110.2 million from the State General Fund to the Public Safety Peace Officers' Retirement System (\$91.3 million) and the Judicial Retirement System (\$18.9 million) to bring the funded ratio of assets to liabilities to approximately 80.0%.

**DISTRIBUTION OF ESTIMATED FY 2014
STATE GENERAL FUND APPROPRIATIONS
(\$ in millions)**



Subcommittee	Est. FY 2014 Appropriations	Percent of Total
Administration & Regulation	\$ 52.9	0.8%
Agriculture & Natural Resources	40.8	0.6%
Economic Development	41.4	0.6%
K-12 Education - School Aid	2,714.8	41.9%
Education	899.0	13.9%
Health and Human Services	1,751.0	27.0%
Justice System	716.4	11.0%
Unassigned Standings	268.8	4.2%
Total	<u>\$ 6,485.1</u>	<u>100.0%</u>

Note:

"Other" includes Administration and Regulation, Agriculture and Natural Resources, and Economic Development.

IOWA HEALTH AND WELLNESS PLAN

[Senate File 446](#), Division 33, implements the Iowa Health and Wellness Plan that will replace the expiring Iowa Care Program and provide Health Coverage to individuals with income between 0.0% - 133.0% of the federal poverty level (FPL), plus a 5.0% income disregard. The Department of Human Services (DHS) is required to request a waiver from the federal government to implement the Plan and provides opt-out provisions if the federal government does not continue their share of the Plan's financing.

Eligibility

The Iowa Health and Wellness Plan will provide coverage to individuals between 0.0% and 133.0% of FPL. Individuals with income between 0.0% and 100.0% of the FPL will receive coverage through a plan administered by the Iowa Medicaid Enterprise. For individuals with income between 101.0% and 138.0% of FPL, individuals will receive premium assistance to purchase a plan through the Health Benefits Exchange. To qualify for the Plan, an individual must meet the same citizenship or alienage requirements of the Medicaid Program, is a resident of Iowa, and provide a social security number upon application for the Plan. The DHS is required to implement the plan in a manner that ensures that Plan is the payor of last resort.

Benefits

The benefits package for the Iowa Health and Wellness Plan will mirror the health benefits plan available to State employees with additions to include mental health services, dental services, habilitation services, and adjusted as necessary to meet federal requirements. The DHS may pay premiums and supplemental cost-sharing subsidies directly to qualified health plans participating in the American Health Benefits Exchange if the DHS finds it more cost effective.

Provider Network

The provider network for the Iowa Health and Wellness Plan is the current Medicaid provider network and all participating Accountable Care Organizations (ACOs). Members are required to choose a primary care provider upon enrollment or the Department will choose a primary care provider for the individual. The DHS is to develop a mechanism for medical homes and ACOs to jointly facilitate member care coordination.

IOWA HEALTH AND WELLNESS PLAN (Continued)

Mental Health Property Tax Levy

The DHS is required to review mental health expenditures that were shifted from the county to the State as a result of the Plan. Based on the results of the DHS review, in the following fiscal year the DHS is first required to reduce counties equalization payments, if one is due, and second counties are required to reduce property taxes until 80% of the savings are returned.

Legislative Committee and Study

The Legislative Council is requested to establish an advisory council, a commission, and a study for the following:

- **Advisory Council for State Innovation Grant:** The Legislative Council is directed to establish a Legislative Advisory Council to assist in the design and implementation plan for the state innovation grant recently awarded by the Centers of Medicare and Medicaid Services.
- **Legislative Committee on Integrated Care Models:** The Legislative Council is directed to establish a Commission to review and make recommendations relating to the formation and operation of integrated care models. The focus is to be on integrating providers (including safety net providers) and financial incentives that improve patient health outcomes, improve care, and reduce costs.
- **Study on Certificate of Merit:** The Legislative Council is requested to establish an interim study committee to study the submission of certificate-of-merit affidavits by plaintiffs and defendants in malpractice actions and limitations on the number of expert witnesses that may be called by both plaintiffs and defendants involving health care providers.

Federal Approval

The DHS is directed to request federal approval of the Plan via a Medicaid 1115 demonstration waiver or state plan amendment to implement the Plan beginning January 1, 2014. The DHS Director is required to provide monthly reports, and other reports upon request, to the Health and Human Services Appropriations Subcommittee Chairpersons and Ranking Members and others regarding the progress.

ADULT MENTAL HEALTH AND DISABILITY SERVICES REFORM

Funding:

[Senate File 452](#), Division 26, provides \$29.8 million in funding to implement the equalization formula that was created in [SF 2315](#) (FY 2013 Adult Mental Health and Disability Services Reform Act). The formula set a new funding target of \$47.28 per capita for county-funded non-Medicaid services. Counties that levy less than \$47.28 per capita will have their property tax levy subsidized up to that level by the \$29.8 million appropriation and counties that levy in excess of \$47.28 per capita are still required to reduce their levy to the new target.

Senate File 452 also provides for the distribution of funds that were previously distributed through the State Payment Program to pay for individuals that had no county of legal settlement. Legal settlement will be eliminated July 1, 2013 and payment for mental health services will be based on county of residence. The appropriation will be distributed to counties based on the where the funds were appropriated in the most recent 12-month period available. The funds are to be distributed to the counties by the department on or before July 15.

In addition to the funding changes above, [House File 648](#) (Bond Repayment and Supplemental Appropriations Bill) provides a \$13.0 million appropriation to the Mental Health Risk Pool for FY 2014. Counties that are required to reduce their levy to \$47.28 per capita due to the equalization formula will be given priority, with the remaining funds available to all counties for continuation of services that are not funded by the Medicaid program, but that are covered under the service management plan approved for the fiscal year.

Other Provisions:

Senate File 452 makes other numerous Code changes including:

- Allowing children to be eligible, as determined by the region, for those mental health or intellectual disability services provided to residents of the same age and eligibility class under an approved county management plan of one or more counties of the region prior to formation of the region.
- Allowing categories of individuals with a developmental disability or a brain injury that were receiving services prior to formation of a region to remain eligible for the services after formation of the region, subject to the availability of funding.

ADULT MENTAL HEALTH AND DISABILITY SERVICES REFORM (Continued)

- Allowing a region to implement demonstration projects using research-based practices.
- Continuing the Crisis Stabilization Pilot Project operating in northern Iowa through June 30, 2014.
- Providing carryforward for the Mental Health redesign technical assistance appropriation to provide the Department of Human Services with funding to continue to support the implementation of a regional system.
- Requiring Counties to pay their outstanding Medicaid bills owed to the State or enter into an agreement with the DHS to pay those bills by July 1, 2013.
- Implements data and statistical performance measures recommended by the Mental Health and Disability Services Redesign Fiscal Viability Study Committee.

Interim Study Committee and Workgroups

The Legislative Council is requested to continue the Mental Health and Disability Services Redesign Fiscal Viability Study Committee to propose a permanent approach to State, county and regional financing for adult mental health and disability services. The Committee is also to continue to monitor the implementation of the mental health and disability services redesign and receive reports from stakeholder groups engaged in implementation of the redesign.

The DHS is required to reconvene the Children's Services Workgroup and complete deliberations to develop a proposal for publicly-funded children's disability services and make a report with recommendations and findings to the General Assembly on or before November 15, 2013.

EDUCATION REFORM

[House File 215](#) provides broad reforms and makes appropriations to the Iowa public education system. The General Assembly approved HF 215 on May 22, 2013. An appropriation for school aid funding is also included in HF 215, and a detailed analysis pertaining specifically to school aid can be found in the school aid section included in this document. The following summary describes each provision of HF 215 and includes a table with the appropriation and allocation amounts specified in the Bill. A more detailed analysis of the provisions included in HF 215 can be found in the Conference Committee Report for HF 215 located at: https://www.legis.iowa.gov/DOCS/NOBA/HF%20215_ES_NOBA_CCR.pdf

Total Estimated Funding Levels

FY 2014 Funding Levels: [House File 215](#) includes school aid funding provisions and specific Education Reform allocation amounts based on the appropriations provided in [HF 604](#) (FY 2014 Education Appropriations Bill). These provisions include:

- An increase of \$77.3 million in State school aid. This includes an increase of \$56.2 million for regular school aid, \$7.8 million for the State categorical supplements, \$5.0 million for preschool aid, \$8.3 million for the additional aid to cover the property tax increase due to the allowable growth rate, and \$1.3 million due to the increase in the Property Tax Equity and Relief (PTER) Fund.
- One-time school aid totaling \$57.1 million is provided to school districts in FY 2014. This funding will be allocated to school districts on a per pupil basis and will be made from an FY 2013 General Fund supplemental appropriation. The per pupil amount is based on 2.0% of the FY 2013 State cost per pupil and will total \$120.00 on a per pupil basis.
- Division XVI provides an FY 2014 allocation of the \$6.8 million that is appropriated in HF 604 and specifies the designation of the funding.

FY 2015, FY 2016, FY 2017, and FY 2018 Funding Levels:

- Direct General Fund appropriations in HF 215 include \$1.5 million each year in FY 2015 and FY 2016 for the Iowa Learning Online Initiative.
- Allocation amounts specified in Division VII of \$60.0 million in FY 2015, FY 2016, FY 2017, and \$10.0 million in FY 2018. These allocations are subject to an appropriation through the Student Achievement/Teacher Quality (SATQ) Program.

EDUCATION REFORM (Continued)

- The school aid formula funding amounts for the Teacher Leadership Supplement (TLS) are standing General Fund appropriations and subject to the amount of funding appropriated to the Teacher Leadership Grants and Aid initiative through the SATQ Program.
- House File 215 provides an increase of \$128.1 million in State school aid for FY 2015. This includes an increase of \$90.7 million for regular school aid, \$14.3 million for the State categorical supplements, \$6.0 million for preschool aid, and \$17.1 million for the additional aid to cover the property tax increase due to the allowable growth rate.

Designation of Appropriations/Allocations. The following table provides the appropriations and allocations specified in HF 215 for FY 2014 and FY 2015 (not including school aid funding). For the full implementation costs of HF 215 in FY 2016, FY 2017 and FY 2018 refer to the Conference Committee Report for HF 215.

Appropriation and Allocation Amounts as Specified in HF 215

Provision	FY 2014	FY 2015	FTEs
Initiatives With Appropriations in HF 215			
Iowa Learning Online Initiative	\$ 0	\$ 1,500,000	3.0 ¹
Total of Appropriations in HF 215	\$ 0	\$ 1,500,000	3.0
Initiatives With Allocations in HF 215 (Funds Appropriated in HF 604)			
Iowa Learning Online Initiative	1,500,000	0	3.0 ¹
Teach Iowa Student Teaching Pilot Program	1,000,000	0	2.0 ¹
Teacher Leadership Grants and Aid	3,500,000	0	0.0
Teacher Leadership Technical Assistance	700,000	0	5.0 ¹
Council on Educator Development	100,000	0	0.0
Extended Learning Time Pilot	40,000	0	0.0
Total of Allocations in HF 215	\$ 6,840,000	\$ 0	10.0
Initiatives with Allocations Subject to Appropriations in the SATQ Program			
Teacher Leadership Grants and Aid ²	0	49,300,000	0.0
Teacher Leadership Dept. of Education Assistance ²	0	700,000	5.0 ¹
High Need School Supplemental Aid ²	0	9,900,000	0.0
High Need School Support ²	0	100,000	1.0 ¹
Total Allocation Amounts	\$ 0	\$ 60,000,000	6.0
Standing Appropriation for School Aid Formula Funding for TLS			
School Aid Formula - Teacher Leadership Supplement ³	N.A.	N.A.	0.0
Total Appropriations/Allocation Amounts Specified in HF 215	\$ 6,840,000	\$ 61,500,000	11.0

Note: House File 604 (2013 Iowa Acts) appropriates \$6.84 million for Education Reform. Amounts in the table do not include school aid appropriations made in Division I of HF 215.

¹ FTE position amounts displayed represent maximum authorized levels as a result of administering the specified initiative.

Total FTE positions are only for the years in which funds are appropriated/allocated, and are totaled to avoid double counting.

² Allocation level based on an appropriation through the Student Achievement/Teacher Quality Program (not appropriated in HF 215).

³ The school aid formula teacher leadership supplement funding is contingent upon the FY 2015 appropriation amount for the Teacher Leadership Grant and Aid provision within the Student Achievement/Teacher Quality Program.

EDUCATION REFORM (Continued)

Description by Division:

Division I – State School Foundation Program

Division I impacts school aid formula funding and provides the following:

- Establishes the percentage increase in per pupil funding for regular school aid and the State categorical supplements at 2.0% in FY 2014 and 4.0% in FY 2015.
- Provides that the property tax portion of the per pupil funding (referred to as the second effort) that increases as a result of the establishment of the allowable growth rate will be paid for with additional state aid in FY 2014 and FY 2015. The additional state aid portion will total \$15 per pupil in FY 2014 and \$46 (an increase of \$31 per pupil compared to FY 2014) in FY 2015 and future fiscal years.
- Provides a one-time State General Fund appropriation in FY 2013 to school districts for FY 2014 totaling \$57.1 million. Each school district will be allocated \$120 per pupil (based on each district's FY 2014 budget enrollment) with payments received at the same time State foundation aid is paid to school district for FY 2014.

Division II – School District Funding Terminology.

Division II replaces the term “allowable growth” with “supplemental State aid” and the term “modified allowable growth” with “modified supplemental amount” in Iowa Code Chapter 257. This Division applies to school budget years beginning with FY 2015.

Division III – Iowa Learning Online Initiative

This Division directs the Department of Education (DE) to establish fees payable by school districts and accredited nonpublic schools to participate in the Iowa Learning Online (ILO) Initiative. The fees will be collected to administer the Initiative including professional development to prepare teachers to participate in the ILO Initiative. Up to 3.0 FTE positions can be used by the DE to administer the Initiative and \$1.5 million is appropriated in FY 2015 and FY 2016. House File 604 (2013 Iowa Acts) appropriates \$6.84 million for Education Reform provisions, and Division XVI allocates \$1.5 million of the appropriation in HF 604 for the ILO Initiative.

EDUCATION REFORM (Continued)

Division IV – Training and Employment of Teachers. This Division requires the DE to establish an online state job posting system, establishes a year-long student teaching pilot project, and establishes a Teach Iowa Scholar Program within the College Student Aid Commission.

Online State Job Posting System. The DE, school districts, charter schools, and area education agencies (AEAs) are required to submit all job openings to the DE for posting on the system.

Teach Iowa Student Teaching Pilot Project. Requires the DE to establish a Teach Iowa Student Teaching Pilot Project in collaboration with a Regents university and a private institution. The pilot project will provide students in teacher preparation programs with a one-year student teaching experience. House File 604 (2013 Iowa Acts) appropriates \$6.84 million for Education Reform provisions, and Division XVI allocates \$1.0 million of the appropriation in HF 604 for the Teach Iowa Student Teaching Pilot Project.

Teach Iowa Scholar Program. Establishes a Teach Iowa Scholar Program within the College Student Aid Commission to provide Teach Iowa Scholar Grants to selected high-caliber teachers. The grants to recipients cannot exceed \$4,000 per year and a total of \$20,000 per recipient over a five-year period. The Program does not receive an appropriation in FY 2014 or FY 2015.

Division V – Assessments

- Beginning with the school year that starts after July 1, 2016, all students in third through eleventh grade are required to be assessed during the last quarter of the school year in math, reading, and science. The assessment is to be aligned with the Iowa Common Core Standards and provide reliable measures of student progress toward college or career readiness.
- An assessment task force is to be established by the Director of the DE to recommend the statewide assessment and submit its recommendations in a report to the Director, the State Board of Education, and the General Assembly by January 1, 2015.

EDUCATION REFORM (Continued)

Division VI – Council on Educator Development. Establishes a Council on Educator Development to make recommendations regarding a statewide teacher evaluation system and performance review requirements, and a statewide administrator evaluation system. The Council will submit its findings and recommendations to the State Board of Education, the Governor, and the General Assembly by November 15, 2016. House File 604 (2013 Iowa Acts) appropriates \$6.84 million for Education Reform provisions, and Division XVI allocates \$100,000 of the appropriation in HF 604 for the Council on Educator Development.

Division VII – Iowa Teacher Career and Compensation Matters.

This division establishes a new framework for teacher career paths, leadership roles, compensation, and provides funding allocations to school districts to implement the framework. Included in the Division:

- Allocation levels (subject to appropriation to the Student Achievement/Teacher Quality Program) of:
 - ◊ \$60.0 million each year for FY 2015 through FY 2017, including \$50.0 million to districts in the initial year of implementation of the Teacher Leadership Framework and \$10.0 million for High Need Schools provisions.
 - ◊ \$10.0 million in FY 2018 and subsequent fiscal years for High Need School provisions.
- In addition to these allocations, there is a standing unlimited appropriation to fund the school aid portion of the teacher leadership supplement that will be implemented beginning in FY 2016. The estimated allocation amounts total \$49.3 million in FY 2016, \$98.6 million in FY 2017, and \$147.9 million in FY 2018 and future fiscal years. These estimates are based on an allocation level of \$310.55 per pupil.
- Specifies that the teacher leadership supplement per pupil funding is subject to an allowable growth rate beginning in FY 2016 (may be included as part of the State categorical allowable rate).
- Requires the sending school district to pay the teacher leadership supplement State cost per pupil from the previous fiscal year to the receiving district for students that are open enrolled.

EDUCATION REFORM (Continued)

- Creates the Iowa teacher career paths, leadership roles, and compensation requirements framework. The framework includes:
 - ◇ A minimum salary level of \$33,500 (the current minimum salary level is \$28,000).
 - ◇ Model teacher provisions that require school districts to designate 10.0% of teachers as model teachers, an additional five contract days, and an additional salary supplement of \$2,000.
 - ◇ Mentor teacher provisions that require school districts to designate 10.0% of teachers as mentor teachers, teaching load of not more than 75.0% student instruction time, an additional 10 contract days, and an additional salary supplement of \$5,000.
 - ◇ Lead teacher provisions that require school districts to designate 5.0% of teachers as lead teachers, teaching load of not more than 50.0% student instruction time, an additional 15 contract days, and an additional salary supplement of \$10,000.
- Provides for the application of approval of a comparable system of career paths and compensation model including an instructional coach model and specifies the requirements for the models.
- Creates the Attendance Center Performance Rankings – Performance Index Criteria and Process. Requires the DE to develop performance goals and evaluate and report on the achievement of each school and specified performance measures for each school. The report is due to the State Board of Education, the Governor, and General Assembly by July 1, 2014.

Division VIII – Competency-Based Instruction Task Force

- Requires the DE to establish a competency-based education grant program to award grants to no more than 10 school districts annually to develop, implement, and evaluate competency-based education and demonstration projects. The DE is required to submit an annual report analyzing the preliminary findings of the program to the State Board of Education, the Governor, and the General Assembly by January 15, 2014. A final report summarizing the program findings, including student achievement results, is due on January 15, 2019.

EDUCATION REFORM (Continued)

- The Competency-Based Task Force established in 2012 [Iowa Acts chapter 1119](#) is required to develop a draft strategic plan and proposed timeline for statewide implementation of competency-based learning for consideration by the General Assembly.
- House File 604 (2013 Iowa Acts) appropriates \$425,000 for competency-based education, and allocates \$100,000 to provide grants under a competency-based education grant program.

Division IX – Instructional Hours. This Division modifies the requirement that schools provide at least 180 instructional days in a school year. The new provision adds that accredited schools provide at least 1,080 instructional hours or 180 days during the school calendar in a school year.

Division X – Private Instruction Exemption. Removes the requirement that a parent, guardian, or legal custodian of a child of compulsory attendance age providing competent private instruction to the child complete a form provided by the public school district to the district stating the name and age of the child, the period of time the child has been or will be under competent private instruction for the year, an outline of the course of study, texts used, and the name and address of the instructor. This Division removes the reporting requirement for a child under private instruction by a nonlicensed person, but maintains the requirement for the reporting requirement for a child under private instruction by a licensed practitioner.

Division XI – Independent Accreditation of Nonpublic Schools. This Division allows nonpublic schools to be accredited by an approved independent accrediting agency instead of by the State Board of Education. The State Board is to maintain a list of approved independent accrediting agencies comprised of at least six regional or national nonprofit, nongovernmental agencies recognized as reliable authorities concerning the quality of education. The list of independent accrediting agencies is to be posted on the DE's internet site.

Division XII – Independent Private Instruction. This Division allows students receiving independent private instruction to access the concurrent enrollment program through the school district where the private instruction is located. Independent private instruction is defined in this Division and included in Iowa Code sections involving compulsory attendance (including criminal proceedings), driver's license requirements, defining "truant," and confidential student records.

EDUCATION REFORM (Continued)

Division XIII – Driver Education by a Teaching Parent. This Division allows a teaching parent to instruct a student in a driver education course using education curriculum approved by the DE.

Division XIV – Miscellaneous Provisions. Requires the Director of the DE to develop and implement a coaching and support system for teachers aligned with the framework and comparable systems approved under the Iowa teacher career paths, leadership, roles, and compensation framework.

Statewide Voluntary Preschool Program Provisions. Provides additional specifications for appropriate uses of preschool formula funding amounts.

Early Intervention/Class Size Reduction Program Sunset Repeal. Extends the repeal date of the Early Intervention/Class Size Reduction Program to July 1, 2018. Provisions of the Program are currently set to expire on July 1, 2013, but funding will still be generated through the school aid formula in FY 2014.

Teaching Strategies Gold Early Childhood Assessment. Requires every school district to administer the Teaching Strategies Gold Early Childhood Assessment to all prekindergarten or four-year-old children enrolled in the district. Also requires districts to administer a universal screening instrument to every kindergarten student enrolled in the district.

School District Reporting Requirement Task Force, Directs the DE to convene a five-member Reporting Requirement Review Task Force appointed by the Director of the DE. The DE is required to compile a list of reports that school districts are required to submit to the DE biennially (or more frequently) and submit the list to the Task Force by September 3, 2013. The Task Force is to review the list of reports and produce a written justification for continuing, modifying, or eliminating each requirement and submit a report to the State Board of Education and the General Assembly by December 2, 2013. The State Board of Education is required to review and determine which of the task force recommendations for modifying or eliminating reporting requirements may be accomplished by administrative rule and which must be accomplished by statute. The State Board of Education is required to submit its finding and recommendations, including plans for board action relating to administrative rules and board recommendations for specific statutory changes, in a report to the General Assembly by February 3, 2014.

EDUCATION REFORM (Continued)

Division XV – Extended Learning Time Pilot Project Model. Requires the DE to develop a pilot program with three school districts to provide students in need with extended learning opportunities. The DE is to complete a report that is due to the State Board of Education, the Governor, and General Assembly by December 16, 2013. House File 604 (2013 Iowa Acts) appropriates \$6.84 million for Education Reform provisions, and Division XVI allocates \$40,000 of the appropriation for the Extended Learning Time Pilot Project Model.

Division XVI – Education Reform Allocations. Allocates a total of \$6.84 million that is appropriated for FY 2014 in HF 604 (2013 Iowa Acts) for certain Education Reform Provisions.

Allocation Amounts by Program Initiative

Initiative	FY 2014
Iowa Learning Online	\$ 1,500,000
Teach Iowa Student Teaching Pilot Program	1,000,000
Teacher Leadership Grants and Aid	3,500,000
Teacher Leadership Technical Assistance	700,000
Council on Educator Development	100,000
Extended Learning Time Pilot	40,000
	\$ 6,840,000 ¹

¹Appropriation of \$6.84 million is made in House File 604

FEDERAL BUDGET CONTROL ACT OF 2011

The federal Budget Control Act (BCA) of 2011 was signed into law on August 2, 2011, and was designed to provide an increase in the federal debt limit while reducing long-term budget deficits. The Act included automatic budget measures, known as sequestration, to reduce the deficit by up to \$1.2 trillion over 10 years via across-the-board (ATB) spending reductions to discretionary and certain mandatory federal programs in the event deficit reduction was not enacted by January 15, 2012. Despite having extended the deadline to March 1, 2013, in HR 8, the American Taxpayer Relief Act (ATRA), the Joint Select Committee (JSC) was unable to reach an agreement for deficit reduction and the cuts were required.

According to the Congressional Budget Office the ATRA included several tax and spending provisions adding nearly \$4.0 trillion to the deficit over the next 10 years. Tax provisions of the Act included permanent tax cuts on ordinary income, capital gains, and dividend income for single and joint taxpayers with incomes below \$400,000 and \$450,000, respectively. For taxpayers earning in excess of these amounts, the maximum tax rate is now 39.6%. Spending provisions included the extension of jobless benefits for a period of 73 weeks of combined state and federal benefits to December 31, 2013, and also and extension of the farm bill until December 31, 2013.

Of the \$1.2 trillion reduction required by the BCA, approximately half of the reduction is from defense spending and half from nondefense, nonexempt discretionary and mandatory programs. The \$85.0 billion to be cut during FFY 2013 requires annualized reductions of 7.8% to non-exempt defense discretionary funding, 5.0% to nonexempt nondefense discretionary funding, 2.0% to Medicare, 5.1% to other nonexempt nondefense mandatory programs, and 7.9% to nonexempt defense mandatory programs. Because the reductions must be absorbed with only seven months remaining in the fiscal year, the effect of the reductions is nearly double the rates stated above.

Congress passed and on March 26, 2013, the President signed HR 933, the "Consolidation and Further Continuing Appropriations Act, 2013", providing FFY 2013 full-year appropriations. The Act left unchanged the ATB reductions required by the BCA. The federal funding reduction of sequestration for Iowa has been estimated at \$46.6 million by state agencies and \$45.6 million by Federal Funds Information for States (FFIS).

FEDERAL BUDGET CONTROL ACT OF 2011 (Continued)

The President released his FFY 2014 budget proposal on April 14, 2013. The President's budget retains the discretionary budget limits included in the BCA. It also eliminates the annual sequestration required in the FFY 2013 budget through both revenue increases and savings in mandatory programs. The President's budget projects a 12.0% increase in revenue as compared to FFY 2013 in part due to a stronger economy and changes to the tax code. An overview prepared by the National Conference of State Legislatures (NCSL) reflects deficit reduction measures in the President's budget totaling \$1.8 trillion over the next 10 years, the majority dedicated to eliminating sequestration. The deficit reduction is focused in the following categories:

- \$580.0 billion in tax reform by broadening the tax base and reducing tax benefits.
- \$400.0 billion in health savings.
- \$200.0 billion from mandatory program savings, including reductions to farm subsidies and federal retirement accounts.
- \$200.0 billion in discretionary savings split between defense and non-defense spending.
- \$230.0 billion from changing the inflation measurement to a measure tied to the Consumer Price Index.
- \$200.0 billion in reduced interest payments on the national debt.

FEDERAL BUDGET CONTROL ACT OF 2011 (Continued)

ESTIMATED IMPACT OF BCA ON IOWA
(\$ in millions)

Iowa Department / Agency	Previous Year \$	Current Year \$	Reduction	After Reduction	FTEs
Education	\$ 268.8	\$ 275.7	\$ -14.1	\$ 261.6	131.60
Public Health	139.5	151.4	-8.8	142.6	11.75
Human Rights	66.9	63.8	-4.7	59.1	0
Vocational Rehabilitation	51.9	51.9	-4.3	47.6	36.00
Human Services	52.0	52.2	-2.9	49.3	0
IA Finance Authority	31.9	38.8	-2.7	36.1	0
Natural Resources	45.6	45.6	-2.3	43.3	0
Economic Development	23.9	21.1	-1.7	19.4	0
Workforce Development	32.6	31.0	-1.6	29.4	45.00
Agriculture	10.8	16.3	-0.8	15.5	0
Inspections and Appeals	9.5	10.3	-0.5	9.8	5.00
Aging	11.9	11.9	-0.4	11.5	0.19
Attorney General's Office	7.3	6.9	-0.4	6.5	0
Public Safety	3.8	3.4	-0.4	3.0	4.00
Drug Control	2.8	3.2	-0.3	2.9	0
Homeland Security	2.8	2.8	-0.2	2.6	0
Treasurer's Office	5.2	5.2	-0.2	5.0	0
Public Television	0.1	0.2	-0.1	0.1	1.00
Cultural Affairs	1.5	1.5	-0.1	1.4	1.00
Civil Rights	1.1	1.1	-0.1	1.0	0
Insurance	1.4	0.9	0	0.9	0
College Aid	0.7	0.6	0	0.6	0
Utility Board	0.7	0.5	0	0.5	0
Blind	0.5	0.2	0	0.2	1.00
Public Defense	39.3	39.6	0	39.6	0
TOTAL	\$ 812.5	\$ 836.1	\$ -46.6	\$ 789.5	236.54

*Estimates are as of early March 2013 and are subject to change.

THE TAXPAYER TRUST FUND

The 2011 General Assembly created the Taxpayer Trust Fund.

- The Fund can receive up to \$60.0 million in a given fiscal year from the excess General Fund surplus dollars after the reserve funds are fully funded. The actual amount that the Taxpayer Trust Fund can receive in a given fiscal year is limited to the difference between the actual net General Fund revenue for the preceding fiscal year and the adjusted revenue estimate used in establishing the budget for that fiscal year.
- Moneys in the Fund are required to be used for tax reduction purposes. [Senate File 295](#) (2013 Property Tax Reform Bill) included a provision that established a nonrefundable income tax credit from the Taxpayer Trust Fund effective for the 2013 tax year. The tax credit is calculated by dividing the balance in the Taxpayer Trust Fund by the number of eligible individuals of the previous tax year. For tax year 2013, this tax credit is estimated to be \$56 per eligible individual.
- The Trust Fund can be used for General Fund cash flow purposes if the funds are returned to the Trust Fund by the close of the fiscal year.
- The interest earned by the Trust Fund is retained in the Taxpayer Trust Fund.

PROPERTY TAX CHANGES AND INCOME TAX CREDIT OF 2013

[Senate File 295](#) (Property Tax Changes and Income Tax Credit Act of 2013) made significant changes to how Iowa classifies and values property for property tax purposes. The Act:

- Creates a new property tax credit available to properties classified as commercial, industrial, or railroad. A standing State General Fund appropriation is created to fund the new credit. The appropriation is equal to \$50.0 million for FY 2015, \$100.0 million for FY 2016, and \$125.0 million for FY 2017 and after.
- Reduces the maximum annual taxable value growth percent, due to revaluation of existing residential and agricultural property, from the current 4.0% to 3.0%. In addition, commercial, industrial, and railroad property is assigned a “rollback” of 95.0% for assessment year (AY) 2013 and 90.0% for AY 2014 and after. A rollback is the percent of a property’s value that is subject to tax. The Act creates a standing General Fund appropriation, beginning in FY 2015, to reimburse local governments for the property tax reductions resulting from the new rollback for commercial and industrial property. Prior to FY 2018, the appropriation is a standing unlimited appropriation. Beginning with FY 2018, the standing appropriation cannot exceed the actual FY 2017 appropriation amount.
- Creates a new property tax classification for human habitat commercial property (apartments, nursing homes, assisted living facilities, etc.). The new classification begins in AY 2015. Property included in the new classification is assigned a rollback percentage of 86.25% for AY 2015, and that percentage declines 3.75 percentage points each year through AY 2021. Beginning in AY 2022, the multiresidential classification is assigned a rollback equal to the residential rollback each assessment year.

PROPERTY TAX CHANGES AND INCOME TAX CREDIT OF 2013 (Continued)

- Exempts a specified portion of the assessed value of every telecommunications company from property taxation. The exemption begins with AY 2013 and is fully implemented in AY 2014.
- Makes changes to the Property Assessment Appeals Board (PAAB) and repeals an existing July 1, 2013, sunset provision for the Board. The Act also makes changes to the procedure for property assessment protests, notifications, and hearings.
- Through the State School Aid formula and the creation of two new appropriations, the property tax provisions of this Act will increase General Fund appropriations beginning in FY 2015. The projected increases for the first three fiscal years are presented in Table 1.

Table 1
State General Fund Appropriation Increases
(\$ in millions)

Appropriation	FY 2015	FY 2016	FY 2017
New State C/I Reimbursement Appropriation	\$ 78.7	\$ 162.5	\$ 153.7
Com/Ind/Rail Property Tax Credit	50.0	100.0	125.0
School Aid General Fund Appropriation Increase	7.2	14.9	24.9
Total General Fund Impact	<u>\$ 135.9</u>	<u>\$ 277.4</u>	<u>\$ 303.6</u>

PROPERTY TAX CHANGES AND INCOME TAX CREDIT OF 2013 (Continued)

- The increased General Fund appropriations combined with the decreased taxable value available to local governments result in decreased property taxes paid by property owners, when compared to a base projection without the property tax changes. The projected property tax reduction is \$329.0 million in FY 2017, a 5.7% reduction in projected property taxes paid.

Table 2
Statewide Property Tax Reductions
(\$ in millions)

Property Tax Reductions Due to:	FY 2015	FY 2016	FY 2017
New State C/I Reimbursement Appropriation	\$ 78.7	\$ 162.5	\$ 153.7
Com/Ind/Rail Property Tax Credit	49.0	99.0	124.5
School Aid General Fund Appropriation Increase	7.2	14.9	24.9
School Reduction for Other Levies	2.5	5.3	8.8
Non-School Local Gov. Revenue Reductions	5.1	9.9	17.1
Total Property Tax Reduction	<u>\$ 142.5</u>	<u>\$ 291.6</u>	<u>\$ 329.0</u>
% Reduction	2.7%	5.3%	5.7%

BOND REPAYMENT AND SUPPLEMENTAL APPROPRIATIONS ACT

The 2013 General Assembly approved [House File 648](#) (Bond Repayment and Supplemental Appropriations Act) that provides for a legal defeasance of several revenue bonds, provides supplemental appropriations for two retirement systems, and makes various supplemental appropriations from the General Fund for one-time expenditures, as well as other additional appropriations and deappropriations.

Funding Summary

Bond Defeasance

To provide for the costs of the legal defeasance, HF 648 transfers \$116.1 million to a new State Bond Repayment Fund from the excess funds remaining after the Economic Emergency Fund reaches its maximum balance for FY 2014, and the first \$60.0 million transfers to the Taxpayers Trust Fund. This amount is appropriated from the State Bond Repayment Fund to the Treasurer of State for FY 2014 for purposes of defeasance of the following revenue bonds:

- **School Infrastructure Bonds.** The school infrastructure bonds were refunded in April 2012 and are not callable, so they must be paid through maturity. Final maturity date is FY 2021. As of June 30, 2012, total principal and interest remaining is \$24.5 million. Debt Services is paid by a \$5.0 wagering tax allocation, in accordance with Iowa Code Section 8.57. Debt services is approximately \$2.7 million annually.
- **I-JOBS 2010 Taxable Series Bonds.** A small portion of the 2010 I-JOBS bonds issuance, authorized during the 2009 and 2010 Legislative Sessions, was taxable. The taxable bonds were issued in October 2010 and have a final maturity date of FY 2026. Debt service for the taxable portion is an estimated \$2.3 million annually. As of June 30, 2012, total principal and interest remaining is \$31.8 million through FY 2026.

BOND REPAYMENT AND SUPPLEMENTAL APPROPRIATIONS ACT (Continued)

- **2002 Prison Infrastructure Bonds.** The 2002 Prison Infrastructure bond issuance was a refunding that paid off the 1994, 1995, and 1996 revenue bonds that were issued for prisons and Community-based Corrections (CBC) facilities. The 2002 Prison bonds are not callable and must be paid through maturity in FY 2016. As of June 30, 2012, total principal and interest remaining is \$26.1 million. The remaining debt service amounts for the bonds include \$8.4 million in FY 2013 and FY 2014, \$6.2 million in FY 2015, and \$3.1 million in FY 2016.
- **Honey Creek Premier Destination Park Bonds:** The bonds are callable on June 1, 2016. For FY 2013, the debt service is approximately \$2.0 million, but debt service ranges up to \$2.3 million in later years. As of June 30, 2012, total principal and interest remaining is \$54.6 million through FY 2036.

Once the bonds are defeased, the Legislative Services Agency will provide an update to the General Assembly on final costs for the transactions. House File 648 provides that if the Treasurer of State determines the \$116.1 million is not sufficient to defease the bonds, the Treasurer of State may submit a written request to the Department of Management certifying the amount of the insufficiency. Once confirmed, additional monies needed are authorized to be transferred from excess monies after the Economic Emergency Fund reaches its maximum.

Miscellaneous FY 2013 Supplemental Appropriation

House File 648 appropriates \$216.9 million in supplemental FY 2013 appropriations from the General Fund for various purposes. Of the total, \$110.2 million is appropriated for two retirement systems and \$106.7 million for miscellaneous agency appropriations.

BOND REPAYMENT AND SUPPLEMENTAL APPROPRIATIONS ACT (Continued)

Table 1 shows the distribution of the \$106.7 million by agency/entity.

Table 1: Supplemental Appropriations - One-Time Expenditures and Projects

Dollars in Millions	
<u>Agency/Entity</u>	<u>Amount</u>
Department of Administrative Services	\$ 3.0
Department of Agriculture and Land Stewardship (IDALS)	18.6
IDALS - Watershed Improvement Review Board	3.0
Department of Commerce	0.1
Department of Corrections	11.2
Department of Education	1.7
Department of Education - Community Colleges	1.0
Department of Human Rights	0.1
Department of Human Services	15.8
Iowa Economic Development Authority	5.0
Iowa Workforce Development	0.3
Judicial Branch	3.0
Department of Public Safety	1.2
Board of Regents	40.5
State Fair Authority	1.3
Department of Transportation	0.2
Department of Veterans Affairs	0.7
Total Agency Supplemental Appropriations	<u>\$ 106.7</u>

BOND REPAYMENT AND SUPPLEMENTAL APPROPRIATIONS ACT (Continued)

Infrastructure Funding: Of the \$106.7 million, an estimated \$45.7 million is for various infrastructure and capital projects. The infrastructure appropriations are provided as FY 2013 supplemental appropriations, but have nonreversion language allowing expenditures to be made through the end of FY 2017, similar to if the funding had been provided from the RIIF or the Technology Reinvestment Fund. Included in the \$45.7 million is \$1.0 million for a plaza at the State Fairgrounds, \$7.0 million for planning and design of buildings at the three universities, \$12.0 million for a core facility at the Iowa State University (ISU) Research Park, \$1.0 million for the Four Oaks Psychiatric Medical Institute for Children, and \$800,000 for The Homestead Autism Clinic facilities.

Other One-Time Expenditures: Additional highlights of the funding provided in the total \$106.7 million include: \$13.0 million for the Mental Health Risk Pool funding for counties, \$10.0 million to the University of Northern Iowa for funding support needed due to the high resident student population, \$20.0 million for soil and water conservation and water quality initiatives, \$1.6 million for the closure of agricultural drainage wells, and \$7.5 million for a Bioeconomy Initiative at ISU.

Retirement Systems

House File 648 provides a total of \$110.2 million in supplemental appropriations to the Judicial Retirement Fund and the Peace Officers' Retirement, Accident, and Disability System Retirement Fund.

Judicial Retirement Fund: For the Judicial Retirement Fund, there is an appropriation of \$18.9 million from the General Fund for FY 2013. The last time the Judicial Retirement Fund received an appropriation was \$3.5 million from the General Fund in FY 2009. With the supplemental funding, it is anticipated the funded ratio will be 80.0%. The calendar year 2012 funded ratio was 68.9%.

Peace Officers' Retirement, Accident, and Disability System Retirement Fund (POR Fund): For the POR Fund there is an appropriation of \$91.3 million from the General Fund for FY 2013. With the supplemental funding, it is anticipated the funded ratio will be 80.0%. The calendar year 2012 funded ratio was 61.0%.

BOND REPAYMENT AND SUPPLEMENTAL APPROPRIATIONS ACT (Continued)

Other Provisions:

In addition, there are other provisions that include one FY 2014 appropriation of \$250,000 from the Rebuild Iowa Infrastructure Fund (RIIF), a deappropriation of \$250,000 from a previously enacted FY 2014 RIIF appropriation, a reduction of an FY 2014 RIIF appropriation for major maintenance that was appropriated in HF 638 (FY 2014 Infrastructure Appropriations Bill), and the elimination of the \$5.0 million standing appropriation from the General Fund that was slated to begin in FY 2014 for the Public Safety Peace Officers' Retirement System.

For additional details on the appropriations in HF 648, see the notes on bills and amendments (NOBA) for published by the Legislative Services Agency: <https://www.legis.iowa.gov/LSAReports/noba.aspx>.

WATER QUALITY INITIATIVE

On November 19, 2012, Iowa released a Nutrient Reduction Strategy in response to the federal Gulf Hypoxia Action Plan. The Strategy was developed by the Department of Agriculture and Land Stewardship (DALs), the Department of Natural Resources (DNR), and Iowa State University (ISU). Researchers evaluated a science-based approach to nutrient reduction strategies for point sources and nonpoint sources.



Examples of point sources include wastewater treatment plants and industrial facilities, whereas nonpoint sources could include farms and urban centers. The goal is to reduce nitrogen and phosphorous concentration each by 45.0%. To accomplish this goal, the strategy sets reduction targets for both point and nonpoint sources of nutrient loading.

The Water Quality Initiative Project and Water Quality Initiative Fund were created in [SF 435](#) (Agriculture and Natural Resources Appropriations Bill). The fund received an appropriation of \$2.4 million from the General Fund for FY 2014 and \$4.4 million for FY 2015. Additional funding of \$20.0 million was appropriated from the General Fund in [HF 648](#) (Bond Repayment and Supplemental Appropriations Bill) with the following breakdown:

- \$10.0 million water quality initiative projects with 70.0% of the projects located in high-priority watersheds designated by the Water Resources Coordinating Council and 30.0% in all watersheds.
- \$7.0 million for soil and water conservation cost share projects.
- \$3.0 million for the Watershed Improvement Review Board with 50.0% for projects associated with the Water Quality Initiative.

NATURAL RESOURCES LEGISLATION

Manure Application Education Training Act

[House File 312](#) requires the Department of Natural Resources (DNR) to provide online courses for manure application training. The DNR will develop technical training content in an internet accessible format as an alternative to a course taught in person. Implementation was contingent on an appropriation to fund project development. The General Assembly appropriated the required funds in [SF 435](#). Implementation of HF 312 will cost \$250,000 in the first year and \$35,000 each year after. Expenditures in the first year include developing a secure website capable of monitoring, tracking, and retaining educational progress, employment records, and personal and business information. Expenses in subsequent years include administering the website and managing content. These costs will require minimal staff time, and will be supported by program fees.

IOWA AGRICULTURE DEVELOPMENT AUTHORITY/ IOWA FINANCE AUTHORITY

Agriculture Assets Transfer Tax Credit Modification Act

[House File 599](#) makes several modifications to the Beginning Farmer Tax Credit Program that was under the Iowa Agriculture Development Authority (IADA). [House File 607](#) transferred the IADA to the auspices of the Iowa Finance Authority.

The IADA may issue up to \$6.0 million in tax credits per year. The tax credit is currently 5.0% of the amount paid to the taxpayer under the Cash Rent Agreement, except in the case of a landlord in a crop share rental agreement. In that case, the tax credit, called Crop Share Agreements, equals 15.0% of the amount paid to the taxpayer from crops or animals sold. The Act makes the following changes:

- Increases the tax credit cap from \$6.0 million to \$12.0 million.
- Increases the tax credit percentages for Cash Rent and Crop Share Agreements from 5.0% and 15.0% to 7.0% and 17.0%, respectively.

IOWA AGRICULTURE DEVELOPMENT AUTHORITY/ IOWA FINANCE AUTHORITY (Continued)

- Limits individual tax credits to \$50,000.
- Creates a new tax credit for landowners that hire a beginning farmer to do custom work and allows the landowner to claim 7.0% of the value of the contract as a tax credit.
- In cases where the beginning farmer is also a veteran, landowners may claim an additional 1.0% of eligible expenses as a tax credit, making the credit effectively 8.0% and 18.0% for the first year of the agreement.
- Increases the maximum net worth used to define a beginning farmer from \$366,324 to \$691,172.
- Allocates \$8.0 million to the current Agricultural Assets Transfer Tax Credit and \$4.0 million to the new Custom Farming Tax Credit. Each tax credit must remain below the allocated amount. The IADA Board may adjust this amount by resolution throughout the year.
- Sunsets changes made by HF 599 to the Agriculture Assets Tax Credit at the end of 2017.

[House File 599](#) is estimated to cost the General Fund \$800,000 in FY 2014 and \$1.2 million in FY 2015.

EXPENDITURE LIMITATION



In the 1980s and early 1990s, Iowa experienced serious financial problems including tax revenues below expectations; expenditures above budget; and a lack of reserves. The Legislature established spending limits and reformed the budget process to restore fiscal integrity, improve cash flow, and create balances in reserve funds.

The Governor and the General Assembly have statutory responsibility to balance the budget. In 1992, several statutory reforms were enacted to provide long-term solutions to the State's budget problems. These included the "Expenditure Limitation" laws.

- Spending is limited to 99.0% of adjusted revenues, 95.0% of any new revenue implemented in a fiscal year, and any carryover from the previous year.
- The Governor and the General Assembly are required to use the revenue estimates agreed to by the December Revenue Estimating Conference or a later estimate during the legislative session, if it is lower, as a basis to determine the General Fund budget for the following fiscal year. If the General Assembly holds an Extraordinary Session, the lower estimate applies, and the Governor and the General Assembly are required to use the lower estimate.
- Three reserve accounts or funds have been created. These include: the Cash Reserve Fund; the Generally Accepted Accounting Principles (GAAP) Deficit Reduction Account; and the Economic Emergency Fund (Rainy Day Fund).
- Expenditures from these reserve funds are limited by statute.

IOWA'S RESERVE FUNDS (RAINY DAY FUNDS)

Iowa's reserve funds are comprised of the Cash Reserve Fund and the Economic Emergency Fund. Together, the balances of these funds is projected to total \$649.1 million in FY 2014.

Cash Reserve Fund

- The maximum balance the Fund may attain is equal to 7.5% of the General Fund adjusted revenue estimate, as established by the Revenue Estimating Conference (REC).
- Moneys in the Cash Reserve Fund may be used for cash flow purposes but are to be returned by the end of the fiscal year.
- Expenditures from the Cash Reserve Fund are limited to nonrecurring emergency expenditures.
- For FY 2014, \$647.1 million of the FY 2013 General Fund surplus is appropriated to the Cash Reserve Fund.

Generally Accepted Accounting Principles (GAAP) Deficit Reduction Fund

- Unexpended money from the General Fund, after the Cash Reserve Fund target is made, is also deposited in the GAAP Fund.
- Funds are appropriated for the purpose of eliminating the State's GAAP deficit. The GAAP Deficit Reduction was eliminated in FY 1995.

IOWA'S RESERVE FUNDS (RAINY DAY FUNDS) (Continued)

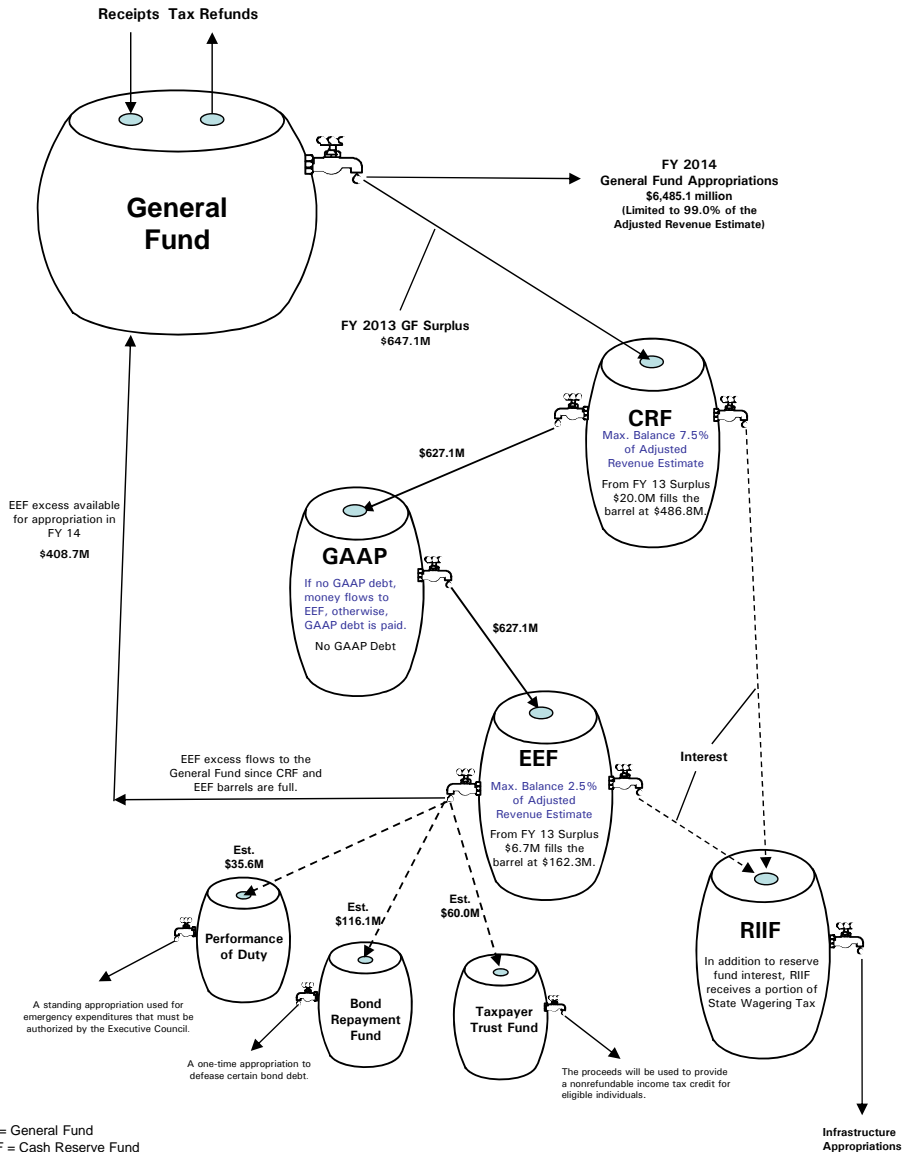
The Economic Emergency Fund

- Established in 1984 and modified in later years.
- The maximum balance the Fund may attain is equal to 2.5% of the General Fund adjusted revenue estimate.
- Once all GAAP (Generally Accepted Accounting Principals (GAAP) obligations are retired, remaining funds are credited to the Economic Emergency Fund.
- Moneys in the Economic Emergency Fund may be used for cash flow purposes but are to be returned by the end of the fiscal year.
- Spending from the Fund is limited to emergency expenditures.
- Allows for an appropriation from the Economic Emergency Fund to reduce a negative ending balance in the State General Fund. The appropriation is limited to \$50.0 million and is contingent on certain circumstances.

There are several appropriations and a transfer from the Fund in FY 2014:

- A standing unlimited appropriation for expenses approved by the Executive Council through the Performance of Duty appropriation. For FY 2014, the expenses are estimated to total \$35.6 million.
- The Taxpayer Trust Fund receives up to the first \$60.0 million of the excess funds after the Economic Emergency Fund has reached the statutory maximum balance.
- The General Assembly made a one-time appropriation from the Economic Emergency Fund of \$116.1 million to the Bond Repayment Fund for FY 2014 to defease several outstanding bond obligations.
- Moneys in excess of the maximum balance are transferred to the General Fund. For FY 2014, the amount transferred to the General Fund is estimated to be \$408.7 million.

FLOW OF GENERAL FUND REVENUES AFTER EXPENDITURE LIMITATION Est. FY 2014 (Dollars in Millions)



GF = General Fund
CRF = Cash Reserve Fund
GAAP = Generally Accepted Accounting Principles Deficit Reduction Account
EEF = Economic Emergency Fund
RIIF = Rebuild Iowa Infrastructure Fund
TTF = Taxpayer Trust Fund
POD = Performance of Duty

Cash Reserve Fund (\$ in millions)

	FY 2013	FY 2014
Balance Forward	\$ 450.3	\$ 466.8
Gen. Fund Surplus	688.1	647.1
Total Revenue	\$ 1,138.4	\$ 1,113.9
Transfer to EFF	-671.6	-627.1
Ending Balance	<u>\$ 466.8</u>	<u>\$ 486.8</u>
Max. 7.5%	\$ 466.8	\$ 486.8

Economic Emergency Fund (\$ in millions)

	FY 2013	FY 2014
Balance Forward	\$ 151.0	\$ 155.6
CRF Excess	671.6	627.1
Total Revenue	\$ 822.6	\$ 782.7
Exec. Council Approp	-14.9	-35.6
RIIF Appropriation	-20.0	0.0
Bond Repayment Fund	0.0	-116.1
Taxpayer Trust Fund	-60.0	-60.0
Transfer to General Fund	-572.1	-408.7
Ending Balance	<u>\$ 155.6</u>	<u>\$ 162.3</u>
Max. 2.5%	\$ 155.6	\$ 162.3

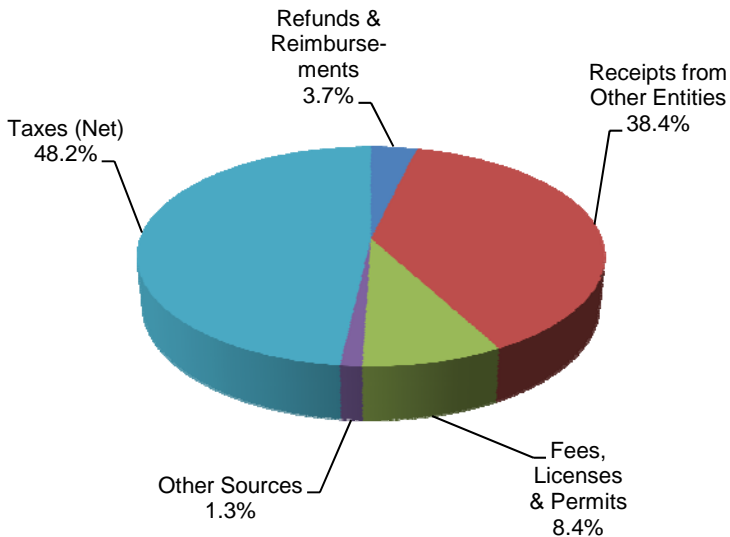
* Numbers may not equal totals due to rounding.

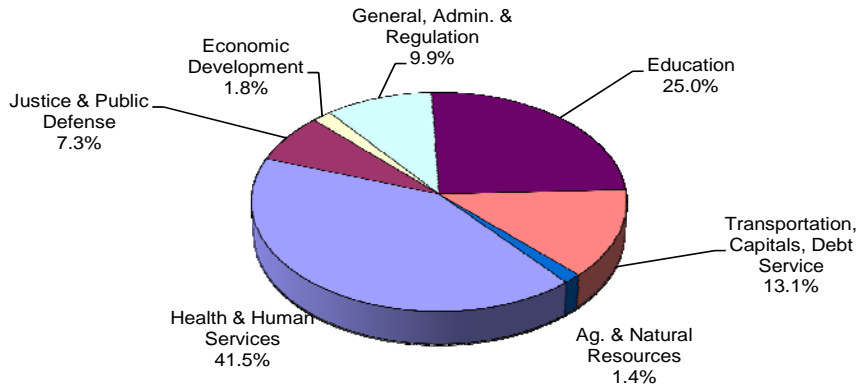
STATE FUNDING SOURCES

Most State operations are accounted for through governmental fund types (as specified in the Iowa Comprehensive Annual Financial Report). Governmental revenues and other financing sources totaled \$14.7 billion for FY 2012. Net receipts increased \$41.3 million (0.3%) compared to FY 2011. Tax revenue increased \$496.9 million (7.6%), and receipts from other entities decreased \$469.7 million (-7.7%), compared to FY 2011.

FY 2012 STATE REVENUE BY SOURCE

Governmental Revenues and Other Financing Sources Excludes Refunds

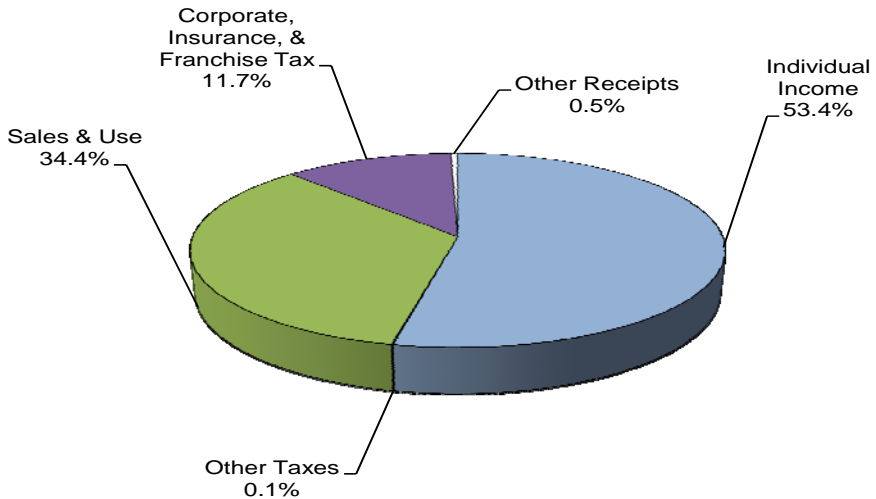


STATE EXPENDITURES GOVERNMENTAL FUNDS**FY 2012 State Governmental Expenditures**

May not total to 100.0% due to rounding.

- Includes General Fund and all other governmental funds. (Comprehensive Annual Financial Report)
- Governmental expenditures totaled \$14.2 billion for FY 2012, an increase of \$0.070 billion (0.5%) compared to FY 2011.
- Revenues for FY 2012 exceeded expenditures by \$0.483 billion. Adjusting for net transfers and other financing uses results in FY 2012 positive net Fund balance change of \$0.052 billion.

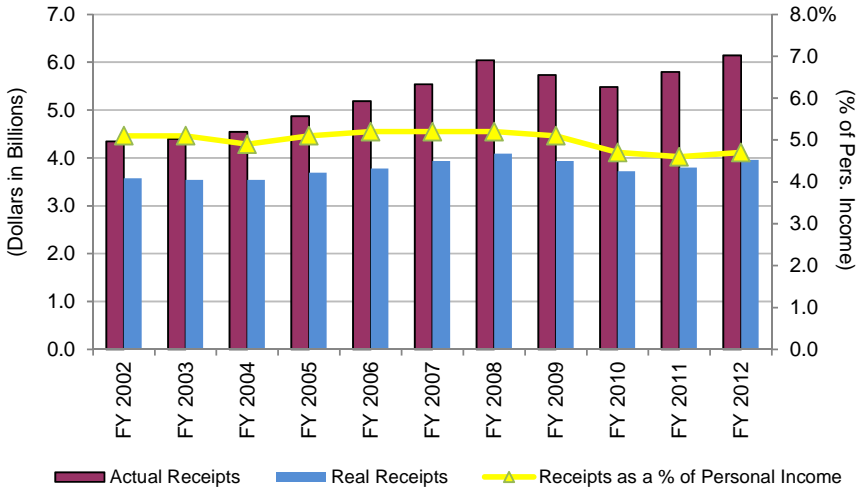
SOURCES OF GENERAL FUND GROWTH FY 2002—FY 2012



May not total to 100.0% due to rounding.

- The chart above does not include transfers to the General Fund from other funds, or accrued revenue, and has not been adjusted for refunds.
- Since FY 2002, growth in personal income tax accounted for 53.4% of the total increase in gross General Fund receipts. Sales and use tax accounted for 34.4% of the total increase. Taxes paid by businesses (corporate income tax, franchise tax, and insurance tax) account for 11.7% of the increase. The percentages in this paragraph have not been adjusted for tax refunds.

GENERAL FUND RECEIPTS HISTORY FY 2002 - FY 2012



- Actual General Fund receipts are net of refunds but are not adjusted for accrued revenue or transfers.
- Real receipts are actual net General Fund receipts adjusted for inflation, using the Consumer Price Index (CPI-U).
- Receipts as a percentage of personal income are actual net receipts divided by personal income. This is a measure of the change in the magnitude of the General Fund relative to the personal income of all Iowans.
- From FY 2002 through FY 2012, Iowa General Fund net receipts grew \$1.797 billion (41.4%). During that same period, total personal income in Iowa grew \$44.9 billion (53.1%).
- In FY 2002, Iowa General Fund net receipts equaled 5.1% of total state personal income. In FY 2012, General Fund net receipts equaled 4.7% of personal income.
- Adjusted for inflation, General Fund net receipts increased 10.8% from FY 2002 to FY 2012.

**GENERAL FUND EXPENDITURES
SHIFTED TO OTHER FUNDING SOURCES
(\$ in millions)**

	Est. <u>FY 2013</u>	Est. <u>FY 2014</u>
Commerce Revolving Fund	\$ 27.2	\$ 27.3
Economic Emergency Fund	14.9	35.6
Environment First Fund	10.4	13.0
Gaming Enforcement Revolving Fund	10.9	10.9
Gaming Regulatory Fund	6.1	6.2
Health Care Trust Fund	106.0	224.4
IowaCare Account	27.3	13.6
Medicaid Fraud Fund	1.9	0.0
Rebuild Iowa Infrastructure Fund	25.1	42.2
Skilled Worker and Job Creation Fund	0.0	66.0
Technology Reinvestment Fund	<u>20.0</u>	<u>0.0</u>
Total	<u><u>\$ 249.8</u></u>	<u><u>\$ 439.2</u></u>

GENERAL FUND RECEIPTS
(in millions)

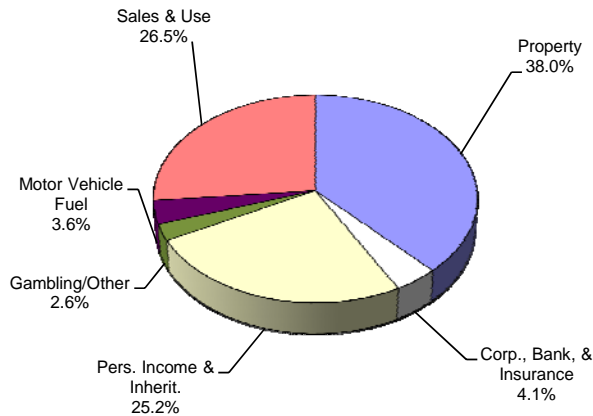
	Estimated FY 2013 REC	Percent of Total Receipts
Tax Receipts		
Personal Income Tax	\$ 3,786.7	49.7%
Sales/Use Tax	2,538.3	33.3%
Corporate Income Tax	511.3	6.7%
Inheritance Tax	79.9	1.0%
Insurance Premium Tax	102.4	1.3%
Cigarette Tax	93.5	1.2%
Tobacco Tax	16.1	0.2%
Beer Tax	14.4	0.2%
Franchise Tax	40.3	0.5%
Miscellaneous Tax	1.1	0.0%
Total Tax Receipts	<u>7,184.0</u>	<u>94.2%</u>
Other Receipts		
Institutional Payments	15.3	0.2%
Liquor Profits	93.5	1.2%
Interest	3.0	0.0%
Fees	20.9	0.3%
Judicial Revenue	112.0	1.5%
Miscellaneous	27.5	0.4%
Racing and Gaming	66.0	0.9%
Transfers	87.2	1.1%
Accruals (Net)	15.10	0.2%
Total Other Receipts	<u>440.5</u>	<u>5.8%</u>
Total Receipts	7,624.5	100.0%
Refunds	<u>-1,343.9</u>	<u>-17.6%</u>
Net Receipts	<u>\$ 6,280.6</u>	<u>82.4%</u>

REC = Revenue Estimating Conference (March 2012)

Note:

Totals may not add due to rounding.

DISTRIBUTION OF MAJOR STATE AND LOCAL TAX SOURCES - ACTUAL FY 2012 (\$ in millions)



Tax	Rate	Actual FY 2012	Percent of Major Tax Sources
Property	Varies	\$ 4,798.8	38.0%
Individual Income	0.36% - 8.98%	2,999.0	23.8%
State Sales/Use	5% *	2,348.0	18.6%
Local Option Sales	up to 2.00% *	710.5	5.6%
Local Option Income	up to 20.0% of state tax	103.0	0.8%
Local Option Hotel/Motel	up to 7.00%	42.0	0.3%
Motor - Fuel	\$ 0.190 to \$0.225	439.0	3.5%
Underground Storage Tank	\$0.01 per gallon	21.0	0.2%
Corporate Income	6.00% - 12.00%	385.0	3.0%
Insurance Premium	1.00%	101.0	0.8%
Cigarettes and Tobacco	\$1.36 per pack	225.0	1.8%
Beer and Wine	\$0.19 per gallon	22.0	0.2%
Gambling/Other	Varies	324.0	2.6%
Inheritance	1.00% - 15.00%	77.0	0.6%
Franchise	5.0% of net income	30.0	0.2%
Total		<u>\$ 12,625.3</u>	<u>100.0%</u>

* The State rate is 6.00%, with 1.00% distributed to local school districts. The revenue from the 1.00% is included in the Local Option Sales line.

Notes:

Totals may not add due to rounding.

Property tax includes Tax Increment Financing revenue.

Property tax includes gas and utility replacement tax.

State Sales/use includes motor vehicle use tax and fee for new registration.

State Sales & Use excludes the statewide 1.0% tax for school infrastructure.

Local option sales includes the statewide 1.0% tax for school infrastructure.

Cash Basis - July 1 through June 30.

Receipts are net of refunds.

IOWA'S CASH MANAGEMENT PRACTICES



Iowa's cash is managed by the State Treasurer's Office. To earn the most interest possible, cash is invested as soon as it is collected, while enough cash remains on hand to pay state bills. Funds of state agencies that are temporarily available for investment are pooled together and invested in certificates of deposit, U.S. Treasury bills and notes, and other corporate debt instruments as allowed by law. Investment goals set by statute include:

- Safety – restrictions on types of investments, limits on credit risk, maturities, and use of leverage is prohibited.
- Liquidity – cash available for the next 60 days of bills; purchase liquid securities.
- Yield – core portfolio invested for longer periods; use of laddered maturities.

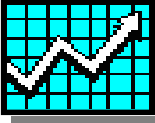
The current size of the investment pool is approximately \$3.0 billion. The realized cash annual rate of return for FY 2012 was 0.29%.

DEBT ADMINISTRATION

The Iowa Constitution prohibits the state from exceeding a maximum of \$250,000 in general obligation debt without voter approval. However, statute authorizes the issuance of Tax and Revenue Anticipation Notes (TRANs), provided the total issuance does not exceed anticipated revenue receipts for the fiscal year and the total issuance matures during the fiscal year.

- In FY 2011 and FY 2012 the state did not issue any TRANs.
- To date in FY 2013, the state has not issued any TRANs.

DEBT MANAGEMENT



The State of Iowa reported total outstanding debt of \$14.406 billion on June 30, 2012, for all governmental entities. This represents an overall increase of \$603.2 million (4.4%) compared to FY 2011.

Governmental entities that reported increases in obligations during FY 2012 include:

Governmental Entity	Dollar Amount Increase Compared to FY 2011	Percentage Change
Cities	\$ 276.4 million	5.72%
Community Colleges	6.0 million	1.04%
Other and Utility Systems	3.7 million	9.31%
Board of Regents	52.2 million	3.84%
School Districts/AEAs	281.2 million	10.31%
State Authorities	56.0 million	2.39%

Governmental entities that reported decreases in debt during FY 2012 include: counties with a decrease of \$30.4 million (-3.7%), and state agencies with a decrease of \$41.8 million (-3.8%).

Debt financing is used for a variety of purposes, including: construction and renovation of public buildings, schools, housing and urban development, utilities, jails and prisons, park and recreational facilities, and local streets and parking lots.

A variety of financing mechanisms are available for use by State and local units of government for public infrastructure improvements. These include:

- General obligation bonds
- Revenue bonds
- Certificates of participation (lease purchase)
- Special assessments on property
- Tax increment financing
- Special tax allocation and dedication of revenue sources, such as hotel and motel taxes

IOWA'S BUDGET PROCESS

The Governor and the General Assembly allocate State resources and set revenue collection levels through the budgeting process.

The process begins in June of each year for the fiscal year that starts 12 months later on July 1.

State agencies prepare budget requests within the guidelines set by the Governor and submit their requests by October 1.

Current statute permits agencies to use a 75.0% "modified base budget" method in determining the future fiscal year budget. In this method, 75.0% of the prior year budget composes a guaranteed base amount and decision packages to reinstate the remaining 25.0% are submitted to the Department of Management. For FY 2007 through FY 2014, this statute has been notwithstanding and agencies have been required to submit estimates of their expenditure requirements, including every proposed expenditure. The estimates are to be accompanied by performance measures for evaluating the effectiveness of the program or results.

The Revenue Estimating Conference (REC) meets before December 15 to set revenue estimates that will serve as a basis for the General Fund budget for the following fiscal year. House File 148 (Transfer Authority Act), approved in the 2011 Legislative Session, allowed the REC to estimate revenues for an additional fiscal year to accommodate the biennial budget process.

The Governor submits annual recommendations to the General Assembly in January.

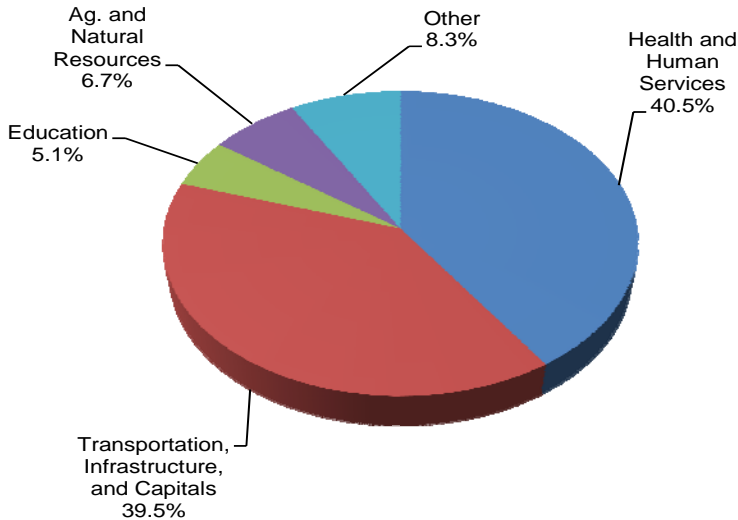
By statute, the Governor's budget must be balanced and must meet expenditure limitations.

The General Assembly conducts budget hearings during January and February. Recommendations from the seven joint budget subcommittees are forwarded to the full Appropriations Committees and to the floor for debate in each chamber.

The State Constitution permits the Governor line-item veto authority over appropriations bills.



**OTHER FUND APPROPRIATIONS
ESTIMATED FY 2014
(\$ in millions)**



	Est. FY 2014 Appropriations	Percent of Total
Administration and Regulation	\$ 51.2	3.9%
Agriculture and Natural Resources	87.9	6.7%
Economic Development	6.3	0.5%
Education	66.0	5.1%
Health and Human Services	528.7	40.5%
Justice System	14.0	1.1%
Transportation, Infrastructure, and Capitals	515.4	39.5%
Unassigned Standing	36.8	2.8%
Total	<u>\$ 1,306.4</u>	<u>100.0%</u>

- Number may not equal totals due to rounding.
- The major sources of other fund appropriations include: Road Use Tax Fund, Primary Road Fund, Rebuild Iowa Infrastructure Fund, Health Care Trust Fund, and Temporary Assistance for Needy Families.
- Other includes: Administration and Regulation, Economic Development, Justice System, and Unassigned Standings.

SALARY ADJUSTMENT



Salary adjustment is an increase allocated to each State department's personnel services budget to provide funding for such things as cost of living adjustments (COLA), changes in the cost of health insurance premiums, salary annualization, and merit step increases awarded during the upcoming fiscal year.

For FY 2014, no funds were appropriated from the General Fund to the Salary Adjustment Fund administered by the Department of Management. The FY 2014 General Fund need was estimated at \$26.9 million.

Salary annualization is the amount needed to pay for merit step increases that were not included in the prior year's salary adjustment. For example, if an employee received a merit step increase in March 2013, an amount sufficient to pay the merit step increase for three months during FY 2013 is typically included in the FY 2013 salary adjustment. Salary annualization is typically included in the FY 2013 salary adjustment for the employee's merit step from July 2013 to March 2014 (nine months).

If all employees had review dates at the beginning of the fiscal year, there would be no salary annualization due to merit step increases. However, if this was the case, the cost of salary adjustment would increase proportionately.

COLLECTIVE BARGAINING SETTLEMENTS FY 2014 - FY 2015

The table below provides the across-the-board adjustments specified by State employee collective bargaining contracts.

	July 1, 2013	Jan. 1, 2014	July 1, 2014	Jan. 1, 2015
AFSCME	0.00%	0.00%	0.00%	0.00%
JUD. AFSCME	0.00%	0.00%	0.00%	0.00%
IUP	0.00%	0.00%	0.00%	0.00%
SPOC*	1.00%	2.00%	1.00%	2.00%
UFI	2.00%	0.00%	2.25%	0.00%
PPME	1.50%	0.00%	1.50%	0.00%
COGS	2.00%	0.00%	2.25%	0.00%
SEIU	2.00%	0.00%	2.50%	0.00%

Notes:

All contracts are effective July 1, 2013, and allow for merit step increases for employees granted merit steps for both FY 2013 and FY 2014.

AFSCME = American Federation of State, County, and Municipal Employees

IUP = Iowa United Professionals

SPOC = State Police Officers Council

UFI = United Faculty of Northern Iowa

PPME = Public Professional and Maintenance Employees

COGS = Campaign to Organize Graduate Students

SEIU = Service Employees International Union/Tertiary Health Care Unit, University of Iowa

INFRASTRUCTURE FUNDING

Appropriations from infrastructure revenue sources include funding for new construction projects, vertical infrastructure projects, major and routine facility maintenance, environmental projects, and technology projects, as well as debt service on certain bonds. Primary infrastructure funding sources are the Rebuild Iowa Infrastructure Fund (RIIF) and the Technology Reinvestment Fund (TRF). Funding may also be provided from proceeds from tax-exempt revenue bonds or other resources that the General Assembly makes available.

The 2013 General Assembly made appropriations for infrastructure-related projects from the following funding sources:

- Rebuild Iowa Infrastructure Fund (RIIF)
- Technology Reinvestment Fund (TRF)
- General Fund (Supplemental Appropriations)*

Resources:

For FY 2014, the RIIF is estimated to have \$205.1 million in total resources, including the balance forward from FY 2013 that reflects the transfer of \$1.5 million from an unobligated balance of the Property Tax Credit Fund, as well as one-time transfers for FY 2014 from the Children's Health Insurance Program (CHIP) Contingency Fund and the former Grow Iowa Values Fund, an estimated \$13.3 million and \$17.7 million, respectively. In addition, [House File 638](#) (FY 2014 Infrastructure Appropriations Bill) provides an increase of \$1.2 million in wagering taxes beginning in FY 2014 due to the elimination of the wagering tax allocation to the General Fund for purposes of the Endow Iowa Tax Credit and the redirection of those wagering tax receipts to the RIIF.

The 2006 General Assembly created the TRF with the purpose of funding technology improvements for State government and provided a standing appropriation from the General Fund of \$17.5 million. For FY 2009 through FY 2012, the funding source for the TRF was shifted to the RIIF at varying amounts. For FY 2013, the TRF was funded with \$20.0 million from the wagering tax receipts that are typically deposited in the General Fund. House File 638 shifts the funding for the TRF from the General Fund to the RIIF for FY 2014 and reduces the amount to \$14.3 million. Funding for the TRF is slated to resume from the General Fund in FY 2015.

INFRASTRUCTURE FUNDING (Continued)

Appropriations:

A total of \$203.9 million is appropriated from the RIIF for FY 2014. Of that amount, \$121.0 million is from current law appropriations that were previously enacted in session law or Iowa Code, including the \$42.0 million standing appropriation for the Environment First Fund. The total also includes the funding for the TRF, as mentioned above. For FY 2014, the TRF has \$6.0 million in previously enacted appropriations. For FY 2014, [House File 638](#), as amended by [House File 648](#) (Bond Repayment and Supplemental Appropriations Bill), appropriates \$68.5 million in new appropriations from the RIIF and \$8.9 million from the TRF that will be in the 2013 session law. Total funding for the infrastructure budget from the RIIF and TRF for FY 2014, including all new appropriations in 2013 session law and previously enacted appropriations and any changes to them, is \$162.5 million. The appropriations of \$14.3 million from the RIIF to the TRF and \$42.0 million to the Environment First Fund are not included in this total to avoid double counting.

*In addition to the infrastructure funding provided from the RIIF and TRF, HF 648 provides \$45.7 million from the General Fund in infrastructure-related appropriations. These appropriations are provided as FY 2013 supplemental appropriations, but have nonreversion language allowing expenditures to be made through the end of FY 2017.

ENVIRONMENT FIRST FUND

The Environment First Fund was created by the 2000 General Assembly to provide funding for the protection, conservation, enhancement, or improvement of natural resources or the environment. The Environment First Fund receives an annual appropriation from the Rebuild Iowa Infrastructure Fund and the appropriation for FY 2013 was \$35.0 million. The Transportation and Infrastructure Appropriations Subcommittee appropriated \$42.0 million for FY 2014.



For FY 2014, the Department of Agriculture and Land Stewardship received an appropriation of \$13.2 million for conservation programs, a decrease of \$550,000 compared to FY 2013. This included \$6.7 million for the Soil Conservation Cost Share Program and \$2.6 million for soil and water conservation. The Department of Natural Resources received an appropriation of \$28.8 million for natural resource and environmental programs, an increase of \$7.6 million compared to FY 2013. This included a \$16.0 million appropriation for the Resource Enhancement and Protection (REAP) Fund and \$6.4 million for the State Park Operations and Maintenance Program, and \$1.4 million for animal feeding operations.

ENVIRONMENT FIRST FUND (Continued)
(\$ in thousands)

Resources	FY 2013	FY 2014
Rebuild Iowa Infrastructure Fund	\$ 35,000.0	\$ 42,000.0
Expenditures		
Department of Agriculture		
Conservation Reserve Enhancement Program	\$ 1,000.0	\$ 1,000.0
Watershed Protection Fund	900.0	900.0
Farm Management Demonstration	625.0	625.0
Soil Conservation Cost Share	6,650.0	6,650.0
Conservation Reserve Program	1,000.0	1,000.0
Soil and Water Conservation Fund	2,550.0	2,550.0
Agriculture Drainage Wells	550.0	0.0
Loess Hills Development Authority	525.00	525.00
Total Department of Agriculture	<u>\$ 13,800.0</u>	<u>\$ 13,250.0</u>
Department of Natural Resources		
REAP*	\$ 12,000.0	\$ 16,000.0
Volunteers and Keepers of the Land	100.0	100.0
Park Operations and Maintenance	3,710.0	6,360.0
GIS Information for Watersheds	195.0	195.0
Water Quality Monitoring	2,955.0	2,955.0
Water Quality Protection Fund	500.0	500.0
Air Quality Monitoring	425.0	425.0
Animal Feeding Operations	620.0	1,320.0
Water Quantity Program	495.0	495.0
Geological Water Survey	200.0	200.0
Keep Iowa Beautiful	0.0	200.0
Total DNR	<u>\$ 21,200.0</u>	<u>\$ 28,750.0</u>
Total Expenditures	<u>\$ 35,000.0</u>	<u>\$ 42,000.0</u>

REAP = Resource Enhancement and Protection Fund

GIS = Geographic Information System

*The Agriculture Drainage Wells Program is funded in HF 648 (Bond Repayment and Supplemental Appropriations Act) with \$1.6 million from the General Fund for FY 2014.

TOBACCO SETTLEMENT

On November 20, 1998, 46 states approved a settlement agreement with the four major tobacco industry manufacturers comprising 99.4% of the United States cigarette market. The manufacturers agreed to a settlement valued at \$206.4 billion to be paid over 25 years to settle tobacco-related lawsuits filed by the states.



Iowa's share is approximately \$1.9 billion (0.87%) of the total funds allocated for distribution to the states. From FY 1998 through FY 2001, Iowa received \$144.4 million under the Master Settlement Agreement. Iowa securitized 78.0% of the payment stream in 2001 and the Tobacco Settlement Authority restructured this debt in 2005. As a result, 78.0% of the payments are made to the trustee to pay the bond obligations. The remaining 22.0% is paid directly to the Endowment for Iowa's Health Account. For FY 2009, the balance in the Endowment for Iowa's Health Account (\$21.9 million) was transferred to the General Fund. Beginning in FY 2010 and continuing in succeeding years, after the tobacco payments are deposited into the endowment, the balance will transfer to the Rebuild Iowa Infrastructure Fund.

The following table summarizes the net (spendable) proceeds received or projected to be received by Iowa from tobacco securitizations since 2001.

The taxable bond proceeds were deposited in the Endowment for Iowa's Health Account. The tax-exempt bond proceeds were deposited in a series of restricted capital funds that were used primarily to fund large capital projects.

Tobacco Securitization Net Proceeds (\$ in millions)

	<u>Series 2001</u>	<u>Series 2005</u>	<u>Total</u>
Net Proceeds			
Taxable Bonds	\$ 39.6	\$ 50.2	\$ 89.8
Tax-Exempt Bonds	540.0	100.5	640.5
Total	<u>\$ 579.6</u>	<u>\$ 150.7</u>	<u>\$ 730.3</u>

STATUS OF TOBACCO FUNDS

The tax-exempt bond proceeds from the 2001 tobacco securitization were deposited in the Restricted Capital Fund (RCF). Proceeds from the 2005 restructuring were deposited in the Endowment for Iowa's Health Restricted Capitals Fund (RC2). The funds have been used for a variety of infrastructure projects around the State over several fiscal years. The bond proceeds and any interest earned must be spent within six and five years of the bond issuances for the RCF and the RC2, respectively.

Restricted Capital Fund and Endowment for Iowa's Health Restricted Capitals Fund

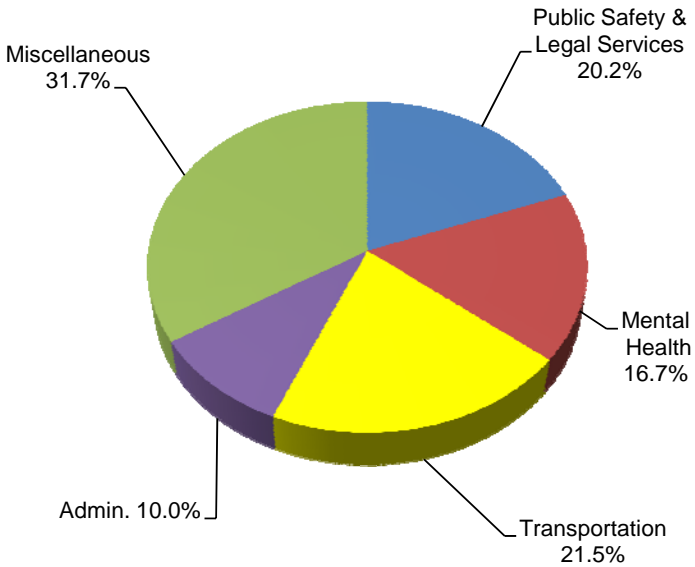
The 2009 General Assembly appropriated the remaining amounts from the RCF and the RC2 in an attempt to take the balances to zero. In order to ensure that the funds would be expended within the timeframe of the tax certificate to comply with the federal Internal Revenue Code, the 2009 General Assembly provided for the transfer of any remaining unencumbered and unobligated balances in the RCF and RC2 to the Department of Administrative Services (DAS) for major maintenance. The DAS is required to report to the Legislative Services Agency (LSA) and the Department of Management regarding the amount transferred and how the funds are spent.

During the 2012 Legislative Session, the General Assembly deappropriated \$2.0 million from the FY 2009 RC2 appropriation for a state emergency response training facility. The funds were unobligated and slated to revert at the end of FY 2012. The funds were appropriated to the prison construction project at Fort Madison for FY 2013.

Status of Endowment for Iowa's Health Account (Endowment)

With the 22.0% unsecuritized tobacco payments remaining available, the 2009 General Assembly transferred the balance of the Endowment for Iowa's Health Account and the Healthy Iowans Tobacco Trust to the General Fund prior to the close of FY 2009. The 2009 General Assembly also provided that beginning in FY 2010, and continuing in succeeding years, after the tobacco payments are deposited in the Endowment, the balance will transfer to the Rebuild Iowa Infrastructure Fund (RIIF). For FY 2013, that amount is estimated to be \$16.0 million.

BUDGETED STATEWIDE COUNTY EXPENDITURES FY 2013



Budgeted Statewide County Expenditures	Estimated FY 2013
Public Safety and Legal Services	\$ 460.0
Mental Health	378.8
Transportation	488.1
Administrative Services	226.4
Miscellaneous	
State & Local Gov't. Services	76.1
Physical Health and Social Services	201.6
County Environment	146.9
Debt Service	84.1
Capital Projects	205.3
Other	7.4
Total	\$ 2,274.8

Note:

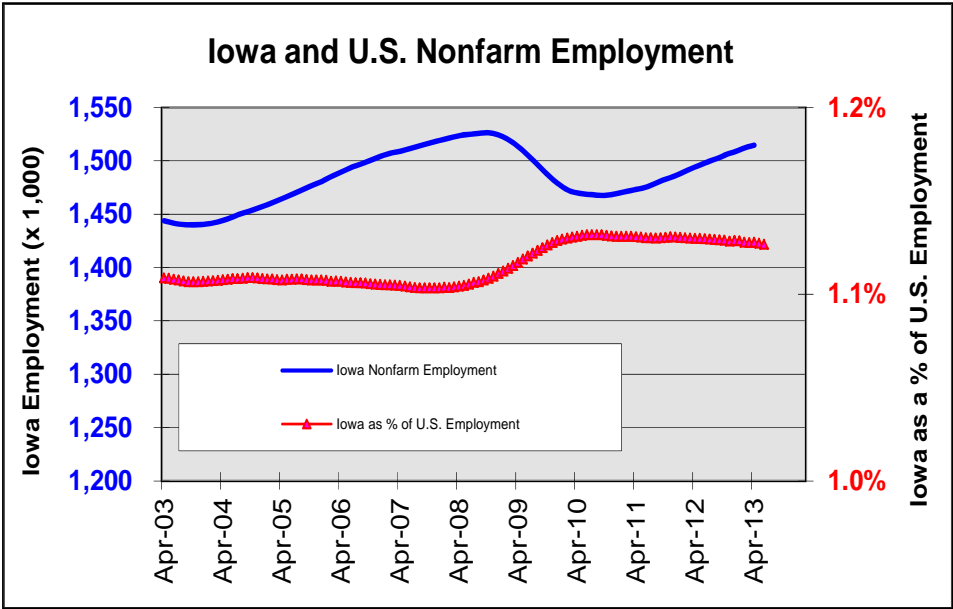
The FY 2013 ending fund balances for all counties is estimated to be \$577.0 million.

ECONOMIC SUMMARY

Iowa nonfarm employment was reported at 1,525,000 for the month of April 2013 (not seasonally adjusted), 15,000 higher (1.0%) than April 2012.

Iowa's 12-month average employment is presented as the blue line on the following graph. Iowa's average nonfarm employment peaked in October 2008 at 1,526,400, and was 47,700 above the peak prior to the previous recession (January 2001). The current 12-month average reading is now 1,514,700, resulting in an annual average Iowa nonfarm employment level 11,700 below the October 2008 peak.

The employment chart also presents Iowa nonfarm employment as a percent of U.S. nonfarm employment. Iowa's share of U.S. nonfarm employment decreased noticeably from 1999 through 2002, decreased at a much slower pace from 2002 through 2007, and increased from January 2008 through June 2010. Since that time, Iowa's percent of U.S. employment has declined as the percentage growth in U.S. employment has exceeded the percentage growth in Iowa employment.

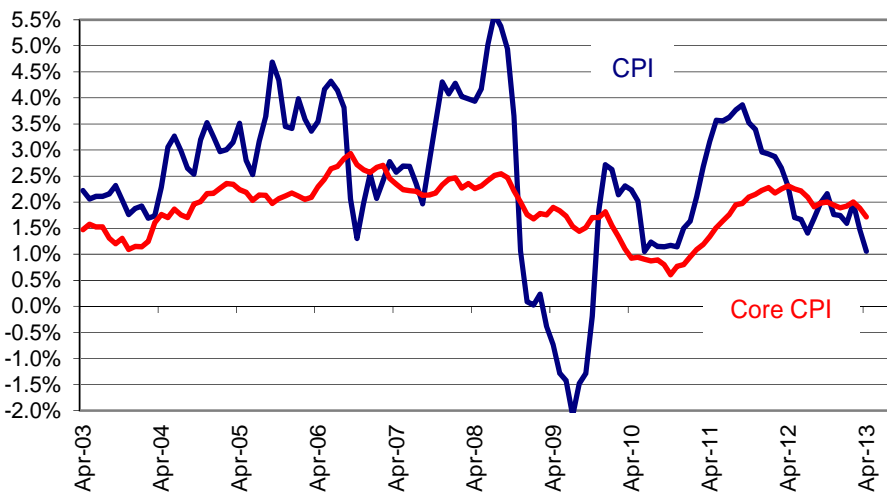


ECONOMIC SUMMARY (Continued)

The Consumer Price Index (CPI-U) through April 2013 was 232.531 (1983/84=100). Consumer prices decreased (0.1%) in April (not seasonally adjusted) while the annual rate of inflation decreased to 1.1% from the previous month's level of 1.5%. The annual rate of inflation is at its lowest level since June 2010, and inflation has been this low or lower for only 13 months over the past 40 years.

Core CPI, an inflation measure excluding food and energy expenditures, increased in April and totaled 1.7% year-over-year. For the two components excluded from the core rate, energy prices are down 4.3% year-over-year and food prices are up 1.6%.

Annual Percentage Increase in CPI and Core CPI



PAYING FOR PUBLIC EDUCATION THE IOWA SCHOOL FOUNDATION FORMULA

The Iowa School Foundation Formula was created between 1970 and 1972, for the school year beginning July 1, 1972. This Formula is a student-driven financing mechanism that works to equalize revenues from State sources and property taxes. The Formula was revised in 1989 to equalize per pupil spending, provide an enrollment cushion (phantom students), increase property tax relief, and provide for increased local discretion. In 1992, further revisions to the Formula included eliminating advanced funding for increasing enrollment, eliminating the enrollment decline cushion (phantom students), and requiring the Governor and General Assembly to establish the allowable growth rate each year, which was previously established by a formula.

In the 1995 Session, the determination of allowable growth was changed again. The General Assembly is required to set allowable growth two years in advance and within 30 days of the submission of the Governor's budget. Through the years since then, many other law changes have occurred impacting the school foundation formula. A listing of those law changes is available at:

[http://www.legis.iowa.gov/DOCS/LSAReports/k12Education/
PublicSchlFunding_LawChanges_1971_to_Present.pdf](http://www.legis.iowa.gov/DOCS/LSAReports/k12Education/PublicSchlFunding_LawChanges_1971_to_Present.pdf)

Although required to establish allowable growth rates for regular school aid and the State categorical supplements for FY 2014 within 30 days of the Governor's budget recommendation (presented on January 10, 2012), no legislation was passed establishing the rates during the 2012 Legislative Session. The 2011 General Assembly established the FY 2013 allowable growth rates for regular school aid and the State categorical supplements at 2.0% in (SF 533 – Standings Appropriations and Related Matters Act) during the 2011 Legislative Session. With passage of [House File 215](#) (Education Reform Bill), the General Assembly established the FY 2014 allowable growth rates for regular school aid and the State categorical supplements at 2.0% during the 2013 Legislative Session.

PAYING FOR PUBLIC EDUCATION THE IOWA SCHOOL FOUNDATION FORMULA (Continued)

Additionally, the General Assembly established the FY 2015 allowable growth rates at 4.0%. The following table provides the State cost per pupil amounts based on the established allowable growth rates.

Regular School Aid Per Pupil Components	FY 2013 State Cost Per Pupil Amounts	Growth in FY 2014 Cost Per Pupil	FY 2014 State Cost Per Pupil	Growth in FY 2015 Cost Per Pupil	FY 2015 State Cost Per Pupil Amount
Regular Program	\$ 6,001.00	\$ 120.00	\$ 6,121.00	\$ 245.00	\$ 6,366.00
Special Education Program	6,001.00	120.00	6,121.00	245.00	6,366.00
AEA Special Education Support	263.51	5.27	268.78	10.75	279.53
AEA Media Services	49.13	0.98	50.11	2.00	52.11
AEA Educational Services	54.22	1.08	55.30	2.21	57.51
State Categorical Supplements					
Teacher Salary - Districts	\$ 517.17	\$ 10.34	\$ 527.51	\$ 21.00	\$ 548.51
Professional Development - Districts	58.57	1.17	59.74	2.00	61.74
Early Intervention	63.80	1.28	65.08	2.60	67.68
Teacher Salary - AEAs	27.07	0.54	27.61	1.10	28.71
Professional Development - AEAs	3.16	0.06	3.22	0.13	3.35

AEA = Area Education Agency

Additional school aid provisions in HF 215 that will impact school aid funding in FY 2014 and FY 2015 include:

- Provides that the property tax portion of the per pupil funding (referred to as the second effort) that increases as a result of the establishment of the allowable growth rate will be paid for with additional state aid in FY 2014 and FY 2015. The additional state aid portion will total \$15 per pupil in FY 2014 and \$46 (an increase of \$31 per pupil compared to FY 2014) in FY 2015 and future fiscal years. The additional State aid is estimated to total \$8.3 million in FY 2014 and \$25.5 million in FY 2015.
- Provides a one-time State General Fund appropriation in FY 2013 to school districts for FY 2014 totaling \$57.1 million. Each school district will be allocated \$120 per pupil (based on each district's FY 2014 budget enrollment) with payments received at the same time State foundation aid is paid to school district for FY 2014.
- Beginning in FY 2015, replaces the term "allowable growth" with "supplemental State aid" and the term "modified allowable growth" with "modified supplemental amount" in Iowa Code chapter 257.

PAYING FOR PUBLIC EDUCATION THE IOWA SCHOOL FOUNDATION FORMULA (Continued)

- Extending the sunset provision on the Early Intervention Block Grant Program by five years. The sunset was slated for June 30, 2013 ([HF 215](#)). School district use of early intervention supplement funding generated through the school aid formula is tied to provisions of the program, and extending the sunset allows school districts to use the funds in FY 2014 for specified purposes. The estimated FY 2014 early intervention supplement totals \$31.6 million.
- Created the Teacher Leadership Supplement funding mechanism to be included in school aid formula funding. This provision will fund each district's teacher leadership framework through the school aid formula on a per pupil basis in the year following district implementation. The initial year for school aid funding for any eligible districts will be FY 2016.

Additional legislation enacted during the 2013 Legislative Session that will have an impact on school aid funding includes:

- An additional State aid reduction of \$15.0 million to the Area Education Agencies for FY 2014. The additional reduction made in [SF 452](#) (FY 2014 Standing Appropriations Bill) is in addition to the statutory reduction of \$7.5 million that occurs annually and is \$5.0 million less than the reduction made in FY 2013.
- SF 452 also extends the number of years a limited English proficient (LEP) student is eligible to receive supplementary weighting through the school aid formula from four years to five years, beginning in FY 2015. This provision is estimated to increase FY 2015 school aid funding by \$5.8 million, including \$5.1 million in State aid and \$0.7 million in local property taxes.

PAYING FOR PUBLIC EDUCATION THE IOWA SCHOOL FOUNDATION FORMULA (Continued)

- Creating new supplementary weighting for shared operational functions beginning in FY 2015 (enacted in [HF 472](#) – Shared Operational Functions Act). The provision expands the current operational sharing functions and funding provisions that are set to expire at the end of FY 2014 and will provide school districts and AEAs with supplementary weighting for the shared operational functions from FY 2015 through FY 2020. The LSA estimate (based on the FY 2014 and FY 2015 allowable growth rates established in HF 215) for FY 2015 totals \$13.3 million in funding, including \$11.6 million in State aid and \$1.7 million in local property tax. The LSA anticipates significant growth in the funding levels in future fiscal years until the provision expires at the end of FY 2020.
- Provisions in [SF 295](#) (Property Tax Reform Bill) will provide changes to the assessment of property values beginning in assessment year 2013, impacting the amount of State aid and property tax mix generated through the school aid formula beginning in FY 2015. The estimated impact of SF 295 is not currently in the estimated totals provided in analysis of this section. The LSA will work with the Department of Management to update taxable valuation amounts and the overall impact on school aid funding for FY 2015.

The following table provides an analysis of the estimated FY 2014 school aid funding, compared to estimated FY 2013. State funding totals include estimates that have been updated based on data as of May 28, 2013, are not final and are subject to change):

- The State General Fund amount totals \$2.715 billion, an increase of approximately \$61.0 million (2.3%), compared to the State General Fund amount for estimated FY 2013. This includes \$2.330 billion for regular school aid, \$327.5 million for the State categorical supplements, and \$65.4 million for preschool formula funding. Including additional funding from the Property Tax Equity and Relief (PTER) Fund of \$8.7 million, the total State school aid funding amount is \$2.723 billion.
- School aid property taxes are estimated to total \$1.341 billion, an increase of \$30.0 million (2.3%) compared to estimated FY 2013.
- The statewide combined district cost is estimated to total \$3.999 billion, an increase of \$88.0 million (2.3%) compared to estimated FY 2013.

PAYING FOR PUBLIC EDUCATION THE IOWA SCHOOL FOUNDATION FORMULA (Continued)

Estimated FY 2014 State School Aid Amounts

(Dollars in millions)

School Aid Funding	Estimated FY 2014	FY 2014 Change from FY 2013	Percentage Change
Regular School Aid	\$ 2,330.4	\$ 49.5	2.2%
State Categorical Supplements	327.5	7.8	2.4%
Preschool Formula	65.4	5.0	8.3%
Est. Total School Aid Amount	\$ 2,723.4	\$ 62.3	2.3%
PTER Fund	\$ 8.7	\$ 1.3	17.6%
Est. General Fund School Aid Amount	\$ 2,714.7	\$ 61.0	2.3%
Est. School Aid Prop. Tax	\$ 1,340.8	\$ 30.0	2.3%
Est. Combined District Cost	\$ 3,998.7	\$ 88.0	2.3%

PTER = Property Tax Equity Relief

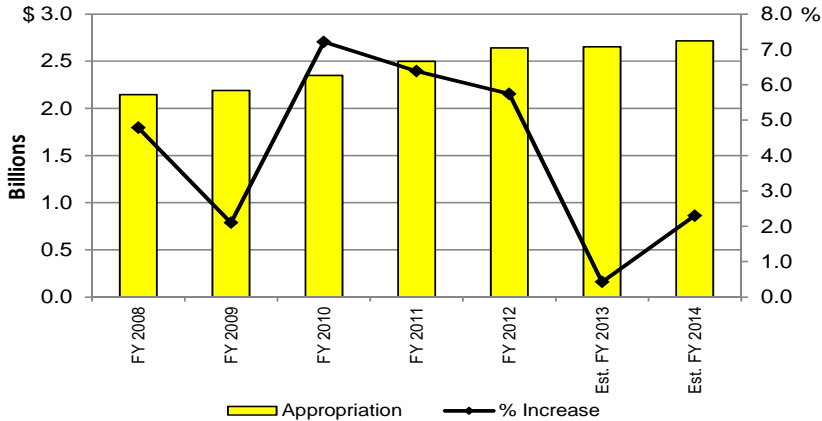
Instructional Support Program

No State funding was provided for the Instructional Support Program. The funding level for the Program was to be restored at \$14.8 million beginning in FY 2014, however the General Assembly approved no funding for the Program in [Senate File 452](#) (FY 2014 Standings Appropriation Bill) for both FY 2014 and FY 2015.

Additional Information

Additional school aid information, including estimates by school district, are available from the LSA upon request or from the [school aid estimates](#) LSA website.

K-12 STATE AID GENERAL FUND APPROPRIATIONS

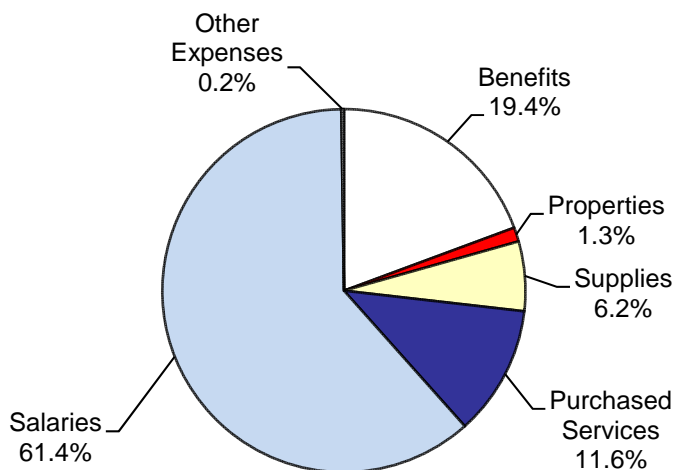


(Dollars in millions)

	Appropriations	Change	Change
FY 2008	\$ 2,146.0	\$ 98.0	4.8%
FY 2009	2,191.0	45.0	2.1%
FY 2010	2,349.0	158.0	7.2%
FY 2011	2,499.0	150.0	6.4%
FY 2012	2,642.5	143.5	5.7%
Est. FY 2013	2,653.7	11.2	0.4%
Est. FY 2014	2,714.7	61.0	2.3%

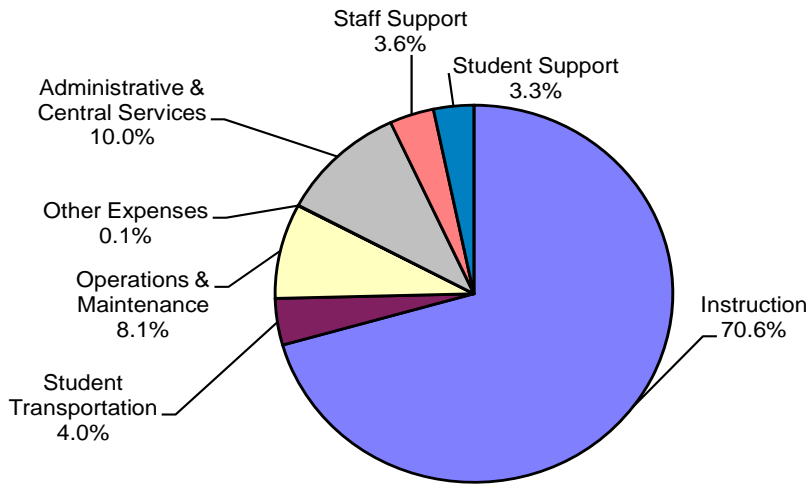
- 1) FY 2009 - FY 2014 includes Preschool Foundation Aid.
- 2) FY 2009 includes a 1.5% across-the-board state aid adjustment that resulted in a reduction of \$33.4 million. The amount displayed also includes \$40.0 million from the American Recovery and Reinvestment Act (ARRA) Education Stimulus funding.
- 3) FY 2010 is based on a capped appropriation amount and adjusted for a 10.0% across-the-board reduction. Beginning in FY 2010, the State categorical supplements are funded through the school aid formula (\$309.0 million) and are included in the total appropriation amount. Additionally, the total includes \$202.5 million from the ARRA Education Stimulus funding.
- 4) FY 2011 is based on a capped appropriation amount. Additionally, a total of \$47.9 million of (American Reinvestment and Recovery Act) ARRA funding and \$5.1 million of Underground Storage Tank (UST) funds were used in lieu of State General Fund dollars.
- 5) Estimated FY 2014 amounts are preliminary and subject to change.

GENERAL K-12 OPERATING EXPENDITURES IOWA SCHOOL YEAR 2011 - 2012



- Does not include Area Education Agencies
- Items do not total 100.0% due to rounding

**GENERAL OPERATING EXPENDITURES K-12
BY FUNCTION FOR IOWA SCHOOL YEAR
2011 - 2012**



*Does not include Area Education Agencies

Items do not total 100.0% due to rounding.

HUMAN SERVICES PROGRAMS



The Department of Human Services is projected to spend more than \$5.2 billion for all programs, including Medical Assistance (Medicaid), the Family Investment Program (FIP), and the Food Stamp Program during FY 2014 (all funding sources). Federal and other nongeneral funds are projected to account for approximately 66.0% of these expenditures.

The Medical Assistance Program is projected to serve an average of 412,710 individuals per month during FY 2014. The Family Investment Program is projected to serve an average of 14,849 households each month. The Food Stamp Program is projected to serve an average of 440,000 persons each month during FY 2014.

The FIP provides direct cash grant assistance to needy families when the children are deprived of parental care or support due to absence, death, incapacity, or unemployment of one or both parents. In FY 1997, the federal government began to block grant \$131.5 million to Iowa annually from the Temporary Assistance for Needy Families Block Grant. Revenues from child support recoveries also finance the Program. The Program was created in FY 1994 as part of a welfare reform effort that changed the structure and benefits of the previous Aid to Families with Dependent Children (to reduce economic disincentives to employment).

The Supplemental Nutrition Assistance Program is a federally-funded program administered by the U.S. Department of Agriculture with the goal of preventing hunger and malnutrition. Recipients of the FIP are automatically eligible for food stamps. Individuals or families may also qualify for food stamps without receiving FIP benefits.

The Child Support Recovery Unit is responsible for collecting child support for families receiving FIP benefits and other families requesting assistance. Other activities include establishing paternity and child and medical support orders, locating absent parents, and reviewing and adjusting support orders upon the request of either parent.

The Medical Assistance Program (Medicaid) pays for low-income aged, blind, and disabled citizens, residents of institutions, and other low-income Iowans that meet certain criteria. Federal law requires coverage of specified services and eligibility groups. In addition, the State of Iowa is currently covering most of the optional services and eligibility groups for which federal matching funds are available.

HUMAN SERVICES PROGRAMS (Continued)

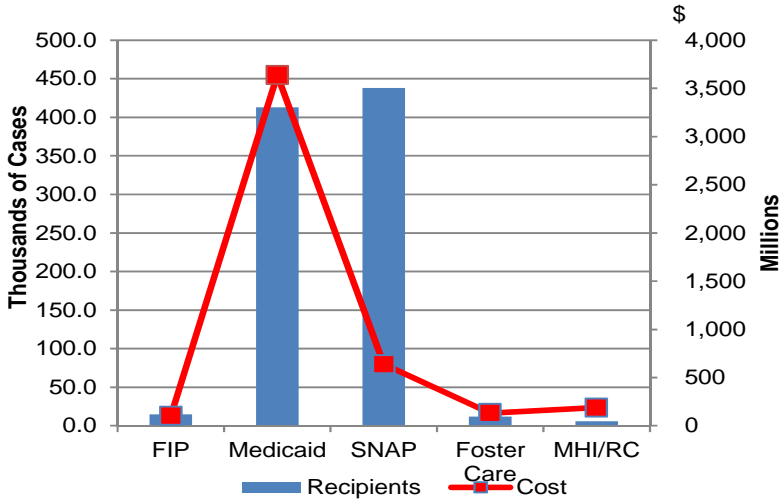
The State Children's Health Insurance Program began in FY 1999, including an expansion of medical assistance eligibility for children of families with incomes up to 133.0% of the federal poverty level and coverage for children of families with incomes up to 300.0% of the federal poverty level in the Healthy and Well Kids in Iowa (hawk-i) using private insurance coverage.

The Foster Care Program provides 24-hour temporary care for children unable to remain in their own homes, while offering services to families and children to implement plans for permanent placement.

The four mental health institutes, located in Cherokee, Independence, Clarinda, and Mount Pleasant, provide critical access to quality acute psychiatric care for Iowa's adults and children needing mental health treatment, and provide specialized mental health-related services. The specialized services include substance abuse treatment, dual diagnosis treatment for persons with mental illness and substance addiction, psychiatric medical services for children, and long-term psychiatric care for the elderly (gero-psychiatric). The institutes also provide limited outpatient services. Two of the institutes, Clarinda and Mount Pleasant, share campuses and select support resources with adult correctional facilities operated by the Department of Corrections.

The two State resource centers, located in Glenwood and Woodward, provide a variety of treatment and outreach services to individuals with mental retardation or other developmental disabilities. The facilities assist residents in reaching their individual goals so they can live in the least restrictive environment of their choice.

The Civil Commitment Unit for Sexual Offenders (CCUSO) provides a secure, long-term, and highly-structured environment for the treatment of sexually violent predators. Patients are offenders that have served their prison terms but, in a separate civil trial, have been found likely to commit further violent sexual offenses. Established in 1999, the CCUSO is located on the campus of the Cherokee Mental Health Institute.

HUMAN SERVICES MAJOR PROGRAM FUNDING

* Foster Care = Family Foster Care, Group Care, and Adoption Subsidy.

PROJECTIONS FOR FY 2014

	Average Monthly Recipients Per Program	Total Program Cost
FIP (Households)	14,849	\$ 60,429,149
Medicaid	412,710	3,622,712,571
Iowa Health and Wellness Plan	TBD	TBD
SNAP	437,849	589,336,688
Family Foster Care	2,285	23,424,838
Group Care	986	35,349,624
Adoption Subsidy	9,408	71,937,388
MHI/RC*	591	188,099,536

The number of recipients are not unduplicated. Recipients may participate in more than one program so the total would be overstated.

FIP = Family Investment Program

MHI/RC = Mental Health Institutes/Resource Centers

SNAP = Supplemental Nutrition Assistance Program

*MHI Average Monthly Recipients per Program interpreted as budgeted Average Daily Census; Resource Centers interpreted as SFY 14 year-end targets.

CHILDREN'S HEALTH INSURANCE PROGRAM (CHIP)

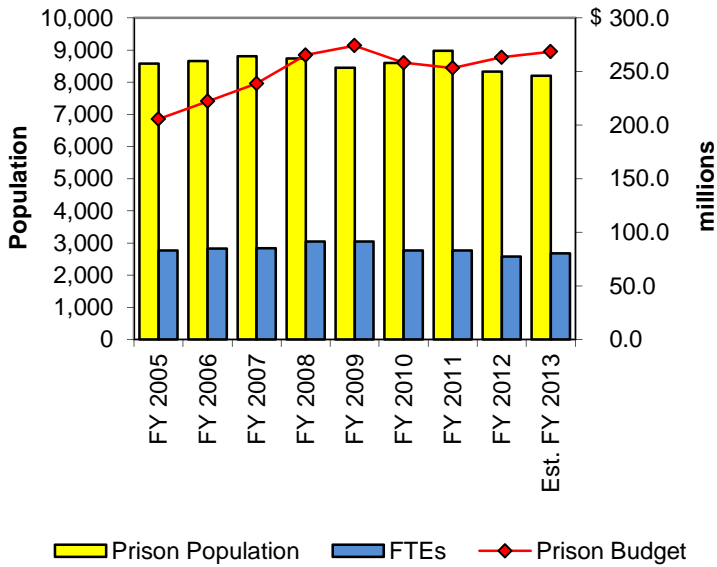
Congress enacted the Children's Health Insurance Program (CHIP), with federal funds available on October 1, 1997, to provide insurance for children in families with incomes up to 200.0% of the Federal Poverty Level (FPL). In February of 2009, the President signed an extension of the program and increased coverage to children in families with incomes up to 300.0% of the FPL. The extension also included an option for dental-only coverage for children in families with income up to 300.0% of the FPL that already have health insurance.

The ***hawk-i*** Program was enacted in 1998, establishing a private insurance program for children in families with incomes between 133.0% and 185.0% of the FPL. The Program was expanded to 200.0% in 2003. Senate File 389 (FY 2010 Health Care Reform II Act) expanded coverage to children in families with incomes up to 300.0% of the FPL with a dental only option for children that currently have insurance.

[Senate File 446](#) (FY 2014 Health and Human Services Appropriations Act) appropriates \$36.8 million to fully fund the ***hawk-i*** Program for FY 2014.

The U.S. Census Bureau estimates that there are currently 728,582 children in Iowa. As of March 2013, 58,009 children were enrolled in the ***hawk-i*** Program and 230,777 children were enrolled in the Medicaid Program.

YEAR-END PRISON POPULATION, STAFFING, AND BUDGET



AVERAGE PRISON POPULATION AND AVERAGE ANNUAL COST PER PRISONER



IOWA'S TRANSPORTATION FUNDS



The Road Use Tax Fund is comprised of revenue sources that include taxes on fuels and fees collected from vehicle registrations. Prior to FY 2009, a use tax was collected on motor vehicle purchases and related equipment and was deposited in the Road Use Tax Fund.

Except for administrative costs, all vehicle registration fees and motor vehicle fuel taxes are constitutionally mandated to be spent exclusively for the construction, maintenance, and supervision of Iowa's public highways (Section 8, Article VII, Constitution of the State of Iowa). The use tax on motor vehicles and equipment, however, was exempt from the constitutional mandate.

[Senate File 2420](#) (TIME-21 Transportation Funding Act), enacted during the 2008 Legislative Session, replaced the motor vehicle use tax with a Fee for New Registration for the purpose of constitutionally protecting the revenues to be spent for road-related purposes.

A portion of the Road Use Tax Fund revenues is appropriated either through standing appropriations established in the Iowa Code or through the annual appropriations process. These expenditures are referred to as "off-the-top" allocations, and are used to fund programs, equipment purchases, and department operations. After the off-the-top allocations are funded, the remaining revenues are distributed based on formulas to the Primary, Secondary, Farm-to-Market, and Street Construction Funds. The formulas remain unchanged under Senate File 2420; however, certain provisions of the Act affected the funding structure of the Road Use Tax Fund beginning in FY 2009.

IOWA'S TRANSPORTATION FUNDS (Continued)

The following table shows estimated Road Use Tax Fund revenues, allocations, and distributions for FY 2013 through FY 2015 based on the Department of Transportation's (DOT) five-year forecast.

ROAD USE TAX FUND PROJECTED RECEIPTS, ALLOCATIONS, AND DISTRIBUTIONS FY 2013 – FY 2015 (\$ in millions)

	Estimated FY 2013	Estimated FY 2014	Estimated FY 2015
Receipts			
Motor Vehicle Registration Fees *	\$ 509.7	\$ 515.0	\$ 523.9
Transfer to TIME-21 Fund (Veh. Reg. Fees*)	-117.7	-123.0	-131.9
Total Motor Vehicle/Carrier Registration Fees	392.0	392.0	392.0
Motor Vehicle Fuel Tax	\$ 443.8	\$ 458.7	\$ 467.3
Fee for New Registration	269.3	274.2	268.7
Interest	2.8	4.0	5.0
Underground Storage Tank Fees	21.3	21.7	22.1
Other**	16.8	15.4	17.0
Transfer from Statutory Allocations Fund	14.7	19.7	24.1
Total Receipts	<u>\$ 1,160.7</u>	<u>\$ 1,185.6</u>	<u>\$ 1,196.2</u>
Total Allocations	<u>\$ 164.7</u>	<u>\$ 169.1</u>	<u>\$ 171.0</u>
Total Available for Distribution	<u>\$ 996.0</u>	<u>\$ 1,016.5</u>	<u>\$ 1,025.2</u>
Distribution			
Primary Road Fund (47.5%)	\$ 473.1	\$ 482.8	\$ 487.0
Secondary Road Fund (24.5%)	244.0	249.0	251.2
Farm-To-Market Road Fund (8.0%)	79.7	81.3	82.0
Street Construction Fund (20.0%)	199.2	203.3	205.0
Total Formula Allocation	<u>\$ 996.0</u>	<u>\$ 1,016.5</u>	<u>\$ 1,025.2</u>

NOTE: Numbers may not equal totals due to rounding.

* Includes motor carrier fees and prorated vehicle registration fees.

** Includes miscellaneous licenses, permits, and fees and adjustments.

IOWA'S TRANSPORTATION FUNDS (Continued)

Transfer of Jurisdiction Fund

Beginning in FY 2004, the jurisdiction and control of approximately 700 miles of primary (state) roads, classified as Local Service Roads, were transferred to cities and counties. As a result, 1.75% of the Primary Road Fund moneys are transferred annually to a Transfer of Jurisdiction Fund. The allocation, effective until the end of FY 2013, is distributed to cities and counties by formula. The Transfer of Jurisdiction Fund sunsets on June 30, 2013. After the sunset, the 1.75% will be distributed as follows: 90.0% to the counties' Secondary Road Fund and 10.0% to the cities' Street Construction Fund.

The following table shows estimated Jurisdiction Fund revenues and distributions for FY 2013 – FY 2014, based on the DOT's five-year forecast.

TRANSFER OF JURISDICTION FUND PROJECTED RECEIPTS AND DISTRIBUTION FY 2013 - FY 2014 (\$ in millions)

	Estimated FY 2013	Estimated FY 2014
Total Receipts*	<u>\$ 8.3</u>	<u>\$ 8.5</u>
Distribution **		
Cities and counties that assumed jurisdiction of primary roads (75.0%)		
Secondary Road Fund (90.0%)	\$ 5.6	\$ 7.6
Street Construction Fund (10.0%)	0.7	0.8
Secondary Road Fund - all counties (22.5%)	1.9	-
Street Construction Fund - all cities (2.5%)	0.2	-
Total Distribution	<u><u>\$ 8.3</u></u>	<u><u>\$ 8.4</u></u>

NOTE: Numbers may not equal totals due to rounding.

* 1.75% of Primary Road Fund

**Transfer of Jurisdiction distribution sunsets on June 30, 2013. After that, the 1.75% from the Primary Road Fund is distributed as follows:

- 90.0% to the Secondary Road Fund
- 10.0% to the Street Construction Fund

IOWA'S TRANSPORTATION FUNDS (Continued)

The Statutory Allocations Fund (SAF) includes items that were funded from the motor vehicle use tax prior to its repeal in FY 2009. The following table shows estimated Statutory Allocations Fund revenues and distributions for FY 2013 through FY 2015, based on the DOT's five-year forecast.

STATUTORY ALLOCATIONS FUND PROJECTED RECEIPTS AND DISTRIBUTION FY 2013 - FY 2015 (\$ in millions)

	Estimated FY 2013	Estimated FY 2014	Estimated FY 2015
Receipts			
Driver's License Fees*	\$ 12.5	\$ 16.7	\$ 14.6
Trailer Registration Fees	8.1	8.3	8.5
Trailer Fee for New Registration	12.2	12.5	12.2
Title/Salvage Title Fees	7.4	7.4	7.4
Title Surcharge Fees	4.9	4.9	4.9
Use Tax**	1.4	1.5	1.4
Car Rental Tax	2.9	3.0	3.0
IA Apportionment Commercial Truck Title Fee	0.8	0.8	0.8
Total Receipts	\$ 50.2	\$ 55.0	\$ 52.7
Distribution			
Underground Storage Tank Fund	\$ 14.0	\$ 14.0	\$ 14.0
Renewable Fuel Infrastructure Fund*	3.0	3.0	3.0
Public Transit Assistance	11.3	11.5	11.3
Motorcycle Rider Education Fund	0.6	0.8	0.7
Special Plate Funds	1.5	1.5	1.5
Total Distribution	\$ 30.4	\$ 30.9	\$ 30.5
Balance transfer to RUTF**	19.8	24.1	22.2

*Includes motorcycle driver's license fees and nonoperator ID fees.

**Includes the use tax on mobile homes, manufactured homes, and leased vehicles not subject to registration.

NOTE: Numbers may not equal totals due to rounding.

*The allocation to the Renewable Fuel Infrastructure Fund became effective July 1, 2011, after the enactment of SF 531 (Biofuel Retail and Production Incentives Act) during the 2011 Legislative Session.

** Due to accounting procedures, the balance of the SAF transfers to the RUTF in the subsequent fiscal year.

IOWA'S TRANSPORTATION FUNDS (Continued)

TIME - 21 FUND

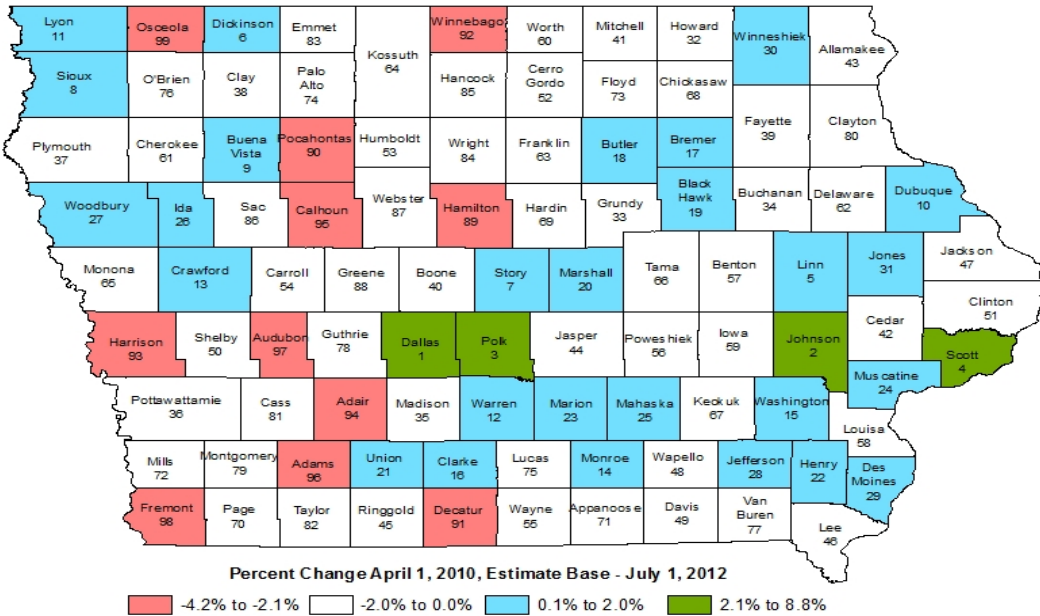
The TIME-21 Fund includes revenues generated from a portion of motor vehicle and trailer registration fees, and title and salvage title fees. The revenues are allocated to the state, cities, and counties based on formula. The following table shows estimated TIME-21 Fund revenues and allocations for FY 2013 through FY 2015 based on the DOT's five-year forecast.

TIME-21 FUND PROJECTED RECEIPTS AND DISTRIBUTION FY 2013 - FY 2015 (\$ in millions)

	Estimated FY 2013	Estimated FY 2014	Estimated FY 2015
Receipts			
Trailer Reg. Fee Increase	\$ 10.1	\$ 10.4	\$ 10.6
Title & Salvage Title Fee Increase	9.8	9.9	9.9
Motor Vehicle Registration Fees	117.7	123.0	131.9
Interest	0.0	0.0	0.0
Total Receipts	<u>\$ 137.6</u>	<u>\$ 143.3</u>	<u>\$ 152.4</u>
Distribution			
Primary Road Fund (60.0%)	\$ 82.5	\$ 85.9	\$ 91.4
Secondary Road Fund (20.0%)	27.5	28.7	30.5
Street Construction Fund (20.0%)	27.5	28.7	30.5
Total Distribution	<u>\$ 137.6</u>	<u>\$ 143.3</u>	<u>\$ 152.4</u>

NOTE: Numbers may not equal totals due to rounding.

IOWA'S POPULATION CHANGE BY COUNTY 2010 - 2012

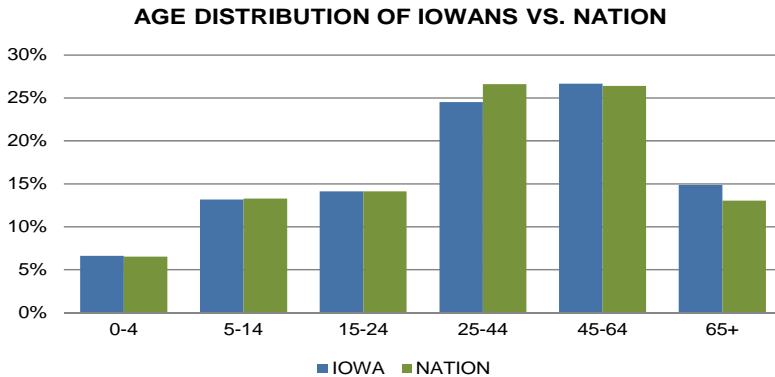
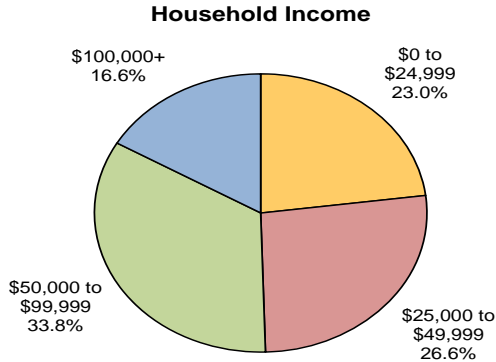


IOWA'S POPULATION CHANGE BY COUNTY 2010 - 2012 (Continued)

- Iowa's population is 3,074,186 according to the 2012 census.
- In 2010, Iowa's population was 91.3% White, 2.9% Black, 0.4% American Indian, 1.7% Asian, 0.1% Native Hawaiian and Other Pacific Islander, 1.8% two or more races, and 1.8% other.
- Persons of Hispanic or Latino origin reflect 5.0% of Iowa's population, compared to 16.3% for the nation in 2010.
- Iowa experienced a 0.9% growth in population from 2010 to 2012, while the national population grew by 1.7%.
- Dallas County reported the greatest gain in population, increasing by 8.8% from 2010 to 2012. Osceola County experienced the largest decline, with a loss of 4.2% during the same period.
- In 2012, 50.4% of Iowa's population resided in 10 counties. These include (in descending order of the most populous): Polk, Linn, Scott, Johnson, Black Hawk, Woodbury, Dubuque, Pottawattamie, Story, and Dallas.
- Polk County is the most populous county in Iowa with 443,710 estimated people in 2012, and growth of 3.0% (13,070 people) from 2010 to 2012.

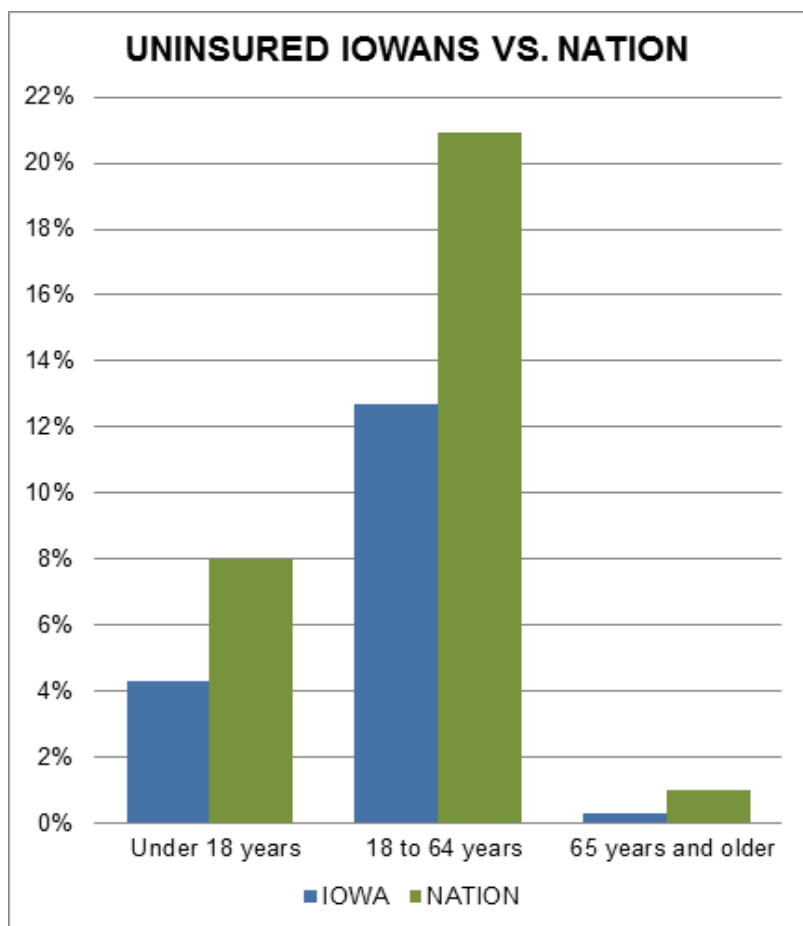
IOWA'S POPULATION

- Iowa's estimated median household income based on the 2007-2011 American Community Survey (ACS) is \$50,451 compared to \$52,762 for the nation.
- Iowa's average household size is 2.41 according to the 2010 Census.



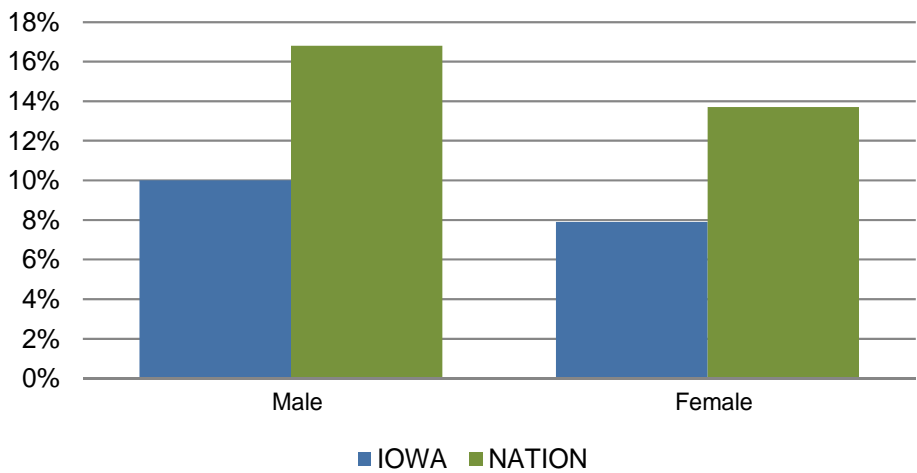
- In 2010, median age of Iowa's population was 38.1, compared to 37.2 for the nation.
- Iowa's population aged 65 years and over is 14.9%, compared to 13.0% for the nation in 2010.
- The estimated percent of individuals with income below the poverty level in Iowa is 11.9%, compared to 14.3% for the nation according to the 2001-2011 ACS.

IOWA'S POPULATION (Continued)

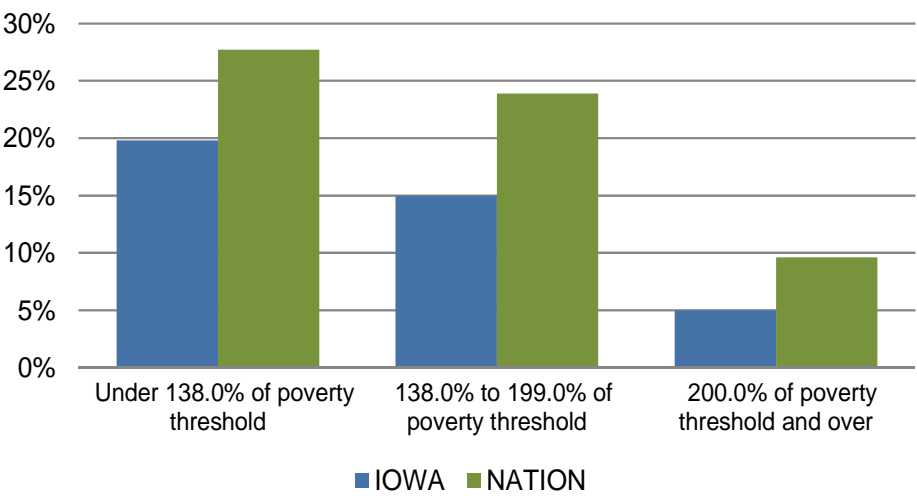


IOWA’S POPULATION (Continued)

UNINSURED IOWANS VS. NATION



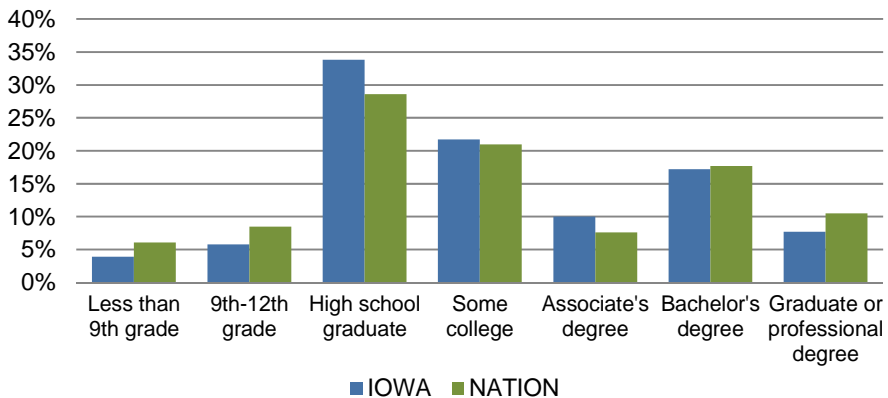
UNINSURED IOWANS VS. NATION



IOWA'S POPULATION (Continued)

- Iowa's four-year graduation rate for the class of 2012 was 89.26%, compared to 88.32% for the class of 2011.
- Iowa's high school dropout rate was 3.20% in the 2011-2012 school year, compared to 3.38% in the 2010-2011 school year.

EDUCATIONAL ATTAINMENT OF POPULATION AGED 25 YEARS AND OVER IOWANS VS. NATION



- In 2011, Iowa had 255.6 violent crimes (murder and nonnegligent manslaughter, forcible rape, robbery, and aggravated assault) per 100,000 inhabitants. In 2010, Iowa's violent crime rate was 273.5.
- Iowa's prison population was 8,191 offenders as of January 1, 2013. Men comprised 91.1% of the population.
- As of January 1, 2013, 64.9% of the Iowa prison population was white, 26.0% was African American, 6.3% Hispanic, 1.8% was American Indian, and 1.0% was Asian.
- As of January 1, 2013, 38.2% of the Iowa prison population was under 31 years of age, 47.3% were age 31-50, and 14.5% were over the age of 50.

IOWA'S POPULATION (Continued)

ESTIMATED IOWA EMPLOYMENT

Agriculture, forestry, fishing and hunting, and mining	62,454	4.0%
Construction	96,548	6.2%
Manufacturing	229,209	14.7%
Wholesale Trade	48,874	3.1%
Retail Trade	181,020	11.6%
Transportation and warehousing, and utilities	74,270	4.8%
Information	32,305	2.1%
Finance and insurance, real estate, rental, and leasing	119,404	7.7%
Professional, scientific, management, administrative, and waste management services	103,952	6.7%
Educational services, health care, and social assistance	368,788	23.7%
Arts, entertainment, recreation, accommodation, and food services	117,495	7.6%
Other services, except public administration	69,260	4.5%
Public administration	50,837	3.3%
Total civilian employed population aged 16 years and over:	<u>1,554,416</u>	<u>100.0%</u>

Source: 2007-2011 American Community Survey (ACS)

IOWA'S PROJECTED POPULATION
PERCENT CHANGE
2010-2040

